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World Business Newspaper http://www.FT.com MONDAY SEPTEMBER 16 1996

US backs away from further attack on Iraq

The US appeared to back away from another confrontation with Iraq. Washington will closely monitor the actions of President Saddam Hussein, but will not be "pressed into over-reacting", a senior US official said. The White House despatched a host of officials to appear on US television to outline a "wait-and-see" attitude to further attacks on Iraq. They hinted that the US might refrain from further retaliation unless provoked. Page 16; Show of strength shows US weakness, Page 4

Brady bonds poised to advance: Brady bonds are poised to make further gains after prices rose to an all-time high last week, partly reflecting improved creditworthiness of many Latin American and eastern European economies against whose debts the bonds were issued Page 17; Broadening investor base buoys Bradys, Page 24

Battle of the computer billionaires

Microsoft chief Bill Gates (left) and Oracle head Larry Ellison are set to clash over the future of personal computing at an industry forum in Paris. Mr Ellison is promoting lower-cost network computers, which he predicts will soon outsell personal computers. Mr Gates has responded scathingly to Mr Ellison and will continue to defend the PC. Forum organisers are billing the confrontation as the "battle of the billionaires". Page 17

BAe not to lift Airbus stake: British Aerospace will not press for an increase in its 20 per cent stake in Airbus Industrie when it becomes a limited company, even though its assets could prove to be worth relatively more than those of its European partners. Page 17; Editorial Comment, Page 15

UK's 'mad cow' plea faces rejection: Britain will today call for a cut in the number of cattle to be killed under a selective slaughter policy aimed at eradicating mad cow disease. A meeting of EU farm ministers in Brussels is expected to reject the call and seek a review of the selective cull. Brussels prepares to take crisis by the horns, Page 2

Hoechst may sell chemicals stake: European chemicals and pharmaceuticals group Hoechst may sell a stake in its chemicals business as part of a broader reorganisation of the group, a senior board member said. Page 17

France plans new pension scheme: France stressed its determination to launch a supplementary pension scheme for private sector employees before the end of the year. Page 2

Business booming at UK law firms: The UK's leading commercial law firms are enjoying a boom in corporate work unseen since the late 1980s, supported by the increasing success of their international operations, a survey shows. Page 16

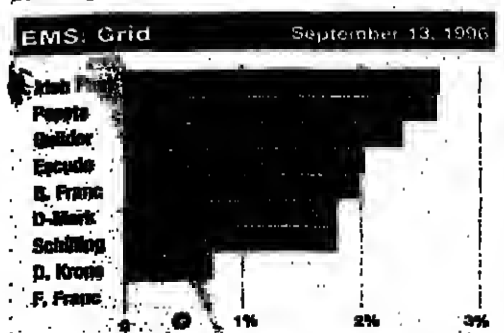
Egypt seeks debt rating: Egypt asked US credit rating agency Moody's for a sovereign debt rating despite a finance ministry statement that the country did not plan to borrow. Officials believe Moody's was planning to produce an unsolicited rating. Page 4

Sell-offs net UK up to £11.5bn annually: The privatisation of UK state enterprises such as British Steel and British Telecommunications has benefited the Treasury by between £6.7bn and £11.5bn ($10.5bn-$17.9bn) a year over 10 years, a report shows. Page 6; Editorial Comment, Page 15

Patten warns on Hong Kong legislature: Hong Kong governor Chris Patten told Beijing that its plans to replace the territory's legislature threatened a smooth handover of power from Britain next year. Page 5

European Monetary System: The Irish punt became the strongest member currency of the EMS last week. It rose four places in the EMS grid to replace the Spanish peseta at the top. The French franc remained the weakest currency, but gained ground on the krone, the schilling and the D-Mark. Currencies, Page 25

EMS: Grid September 13, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

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Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lts 16.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh16	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr260	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kč70	India	Rs75	Nigeria	Naira120	Spain	Pta250
Denmark	DKr20	Israel	Shk8.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£80.00
Finland	FM18.00	Jordan	JD1.75	Poland	Zł 6.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils 750	Portugal (m'land)	Es265	Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500			UAE	Dh13.00

Switzerland plans to widen hunt for Nazi gold

By William Hall in Zurich

The Swiss government will today announce plans to extend the search for information about looted Nazi gold and other second world war assets to lawyers, trustees and other bodies which dealt with Germany between 1933 and 1945.

In a response to growing international criticism of Switzerland's wartime role, Mr Flavio Cotti, the Swiss foreign minister, and Mr Hans Meyer, the chairman of the Swiss National Bank, are expected to put Switzerland's side of the issue which is damaging its reputation.

Draft laws, which are being pushed through rapidly, will waive bank secrecy laws to allow the investigation of the fate of assets sent to Switzerland during the war. The government intends to appoint a panel of experts for the investigation and review earlier Swiss measures to resolve the problem.

Senior Swiss politicians have been embarrassed by the international reaction to last week's British Foreign Office report which suggested that substantial amounts of looted Nazi gold are still hidden in Swiss banks. Mr Cotti will meet Mr Malcolm Rifkind, Britain's foreign secretary, in Berne later this week and is expected to stress that most of the information coming out has already been well documented.

Nevertheless, Swiss officials do not disguise the fact that an important reason for rushing through new laws and setting up an official investigation is to try to re-establish the country's international reputation.

The draft legislation was designed to support the international committee, chaired by Mr Paul Volcker, the former chairman of the US Federal Reserve, which is investigating the fate of dormant accounts belonging to Jewish victims of the holocaust.

However, the Swiss government has agreed to widen legislation to deal with the question of looted assets in Swiss banks and other institutions which were not reported or returned before, during and immediately after the war.

Mr Paul Sager, head of international legal affairs at the Swiss foreign ministry, said there was a "clear will amongst all of Switzerland's politicians and business leaders to clear the matter up once and for all".

The draft legislation has to be debated by Switzerland's 200-strong National Council and then its second chamber, the Council of States. It is hoped it will be in place by the end of the year. However, the law could be delayed if 50,000 signatures are collected to demand a referendum.

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Observer, Page 15

Bank of England chief warns of Emu rift

By Andrew Gowers and Gillian Tett in London

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Emu tightrope ....Page 15

European monetary union preparations could be harmed by likely member countries attempting to discriminete against non-membere, Mr Eddie George, governor of the Bank of England claimed.

In an interview with the Financial Times, he warned that the dispute hetween Britain, France and Germany over access to a future EU inter-bank payment system threatens to undermine co-operation between European central banks and create an unnecessary split between members and non-members of Emu, due to start in 1999.

"For the first time something was being introduced into the Emu discussion which was discriminatory for a non-monetary reason," Mr George said. "It suggests that the game might now be changing."

His remarks come amid controversy about how a British "opt-out" from Emu would affect UK business and the City, the UK's financial centre.

In particular, there is concern that British banks will suffer if, as France and Germany insist, countries outside Emu have limited access to a new "real-time" payment system, called Target.

In his first public statement on Target siuce the dispnte emerged, the Bank governor said the issue itself was "trivial". However, he said it was *symbolically significant given* current efforts by French and German banks to "steal a competitive march" by restricting non-members' access to Target.

Mr George argued for continued co-operation between central banks in the European Monetary Institute, forerunner of the European central bank that will oversee the single currency, the euro.

But he said this co-operation was coming under severe political strain as the launch date for Emu approached.

"I don't see why the situation should develop into a split between the 'ins' and 'outs'. But you could see that developing if the 'ins' felt that they were imposing on themselves a discipline which is not going to apply to the others."

In the interview, Mr George said he:

● Thought it "less likely" than he believed a year ago that the economic conditions for Emu to start would be in place by the time a decision needs to be taken.

● Was concerned that Emu founder members might be tempted to "fudge" the strict economic criteria for budget deficit and debt reduction imposed by the Maastricht

Continued on Page 16

Seeing hope for the future in former Yugoslavia: Richard Holbrooke at a Sarajevo press conference yesterday Picture: Reuter

Bosnia poll backed as free and fair

Moslem complaints rejected by organisers

By Laura Silber in Sarajevo

The international organisers of independent Bosnia's first peacetime election last night brnshed aside Moslem complaints and insisted that Saturday's poll had largely been free and fair.

The provisional endorsement of the poll by the Organisation for Security and Co-operation in Europe appeared to pave the way for a formal seal of approval later this week and the final lifting of UN sanctions against Serb-led Yugoslavia by the end of the month.

Mr Richard Holbrooke, the author of the Dayton peace agreement, said the election had laid the ground for a breakthrough in relations between Serbia and Bosnia, whose leaders would meet in three weeks' time.

Sir Kenneth Scott, deputy head of the OSCE mission, said yesterday: "The Provisional Election Committee was in general pleased with the way the elections went. There was remarkably little violence."

Ms Agota Kuperman, an OSCE spokeswoman, described the elections as "almost entirely free of abuse" and added: "The international observers, according to our preliminary reports, have been well satisfied with the arrangements they observed."

The OSCE's verdict came in spite of a strong complaint, in an open letter to the UN Security Council, by the Party of Democratic Action, the SDA, which holds power in Sarajevo. The Moslem nationalist party said "the necessary conditions did not exist to provide for free and fair elections" in Republika Srpska, the Bosnian Serb entity which comprises roughly half of Bosnia.

Mr Holbrooke described the SDA's challenge as long-planned and widely expected.

SDA officials yesterday stood by their complaints, saying that the number of registered Serb voters exceeded the number of Serbs living in Bosnia before the war.

In response to the Moslem protest, Bosnian Serb authorities briefly ordered local committees to halt the counting of votes in Republika Srpska.

Preliminary indications of the likely make-up of new pan-Bosnian institutions – a parliament and three-person presi-

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Sighs of relief, Page 2

Sony ousts top executive of struggling film division

By Christopher Parkes in Los Angeles

Sony's embattled film division has been thrown into renewed turmoil hy the ousting of its top executive and the refusal of the job by the man expected to replace him.

The debacle underscores the Japanese electronics group'e failure over more than aix years to control its costly Hollywood investment and throws into doubt the future of other top executives in Los Angeles and at the group's US headquarters in New York.

It also raises the prospect that Sony may be forced to seek a partner in tha entertainment industry – an option so far rejected hy Mr Idei Nobuyuki, Sony group president.

The latest crisis came over the weekend, when Mr Mark Canton, head of Columbia and TriStar studios, was removed. Mr Arnold Rifkin, chosen to succeed him, simultaneously announced he would stay on as head of the film division at the William Morris talant agency.

The withdrawal of Mr Rifkin, the choice of Mr Alan Levine, president of Sony Pictures Entertainment which embraces television and film operations, coincided with reports that Mr Nobuyuki was unhappy with pnblicity surrounding the headhunting process.

The episode has left a cloud

Sony wishes on a star..... Page 17

over Mr Levine'e prospects, although the former lawyer has been credited with helping stamp out epending excesses at Columbia and TriStar.

The group'e film business has struggled since late-1989 when Sony paid almost $5bn for Columbia studios and the services of two relatively inexperienced, senior executives, Mr Peter Guber and Mr Jon Peters.

In 1994, after a bad year at the box office, Sony admitted it had overpaid, and announced a $2.7bn write-off and a $510m quarterly loss from films.

Trouble struck again last December when Mr Michael Schulhof, head of US operations, left abruptly after a dispute with Mr Nobuyuki.

Sony'e attempts to buy its way out of trouble by paying record fees to actors and directors have failed and served mainly to prompt accusations that the group is a leading source of inflation in the film industry.

The Cable Guy, a big disappointment this year, was distinguished mainly by the $20m paid to comic actor Jim Carrey which started a fresh round of pay escalation at other studios.

Mr Nobuyuki has publicly supported Mr Levine on two occasions this year, but rumours continue to circulate that he is on tha way out. There have also been reports that Mr Jeff Sagansky, the senior US executive at Sony in New York, has asked to leave.

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An election monitor counts ballot papers in Bihac yesterday. The poll was declared largely trouble-free Reuter

Sighs of relief as Bosnia votes in relative calm

Few displaced Moslems take up chance to vote in home towns

By Laura Silber in Brcko

Mr Richard Holbrooke, the author of the Dayton peace accord, and Mr Carl Bildt, the Swedish politician who has to put the non-military parts of the deal into practice, are keen to show the world how well they get along.

In private, they still have their differences. But over the weekend, as they toured northern Bosnia by helicopter, the two men were a model of harmony - as both breathed a sigh of relief over the relative calmness of Bosnia's elections.

"What we saw was by and large a trouble-free election," declared Mr Holbrooke, summing up his impressions on a tour that took in the Serb stronghold of Banja Luka, the ethnically mixed city of Tuzla - and Brcko, a strategic town whose future status will be decided by legal arbitration in December.

"A year ago today, Nato was still bombing Serb targets, a Croat offensive was going on in the west and the killing was still going on in Brcko," said Mr Holbrooke, arguing that the Dayton agreement had already brought huge dividends.

Mr Bildt sounded an equally optimistic note: "The election day passed with great dignity and without major incidents."

But as bitter Bosnian Moslems were pointing out yesterday, the lack of violence was in itself no proof of a perfectly run election.

One reason why few incidents occurred is that only a fraction of the voters who were uprooted by the "ethnic cleansing" campaign, launched by the Serbs in 1992, were bold enough to exercise their right to vote in their home towns.

Organisers said about 20,000 Moslems - compared with earlier predictions of 60,000 - took advantage of an arrangement under which they could vote in special polling stations on the outskirts of their old home towns.

Those Moslems who did vote in Serb-held parts of Bosnia had to travel in special buses along designated routes which were kept secure by western troops.

Outside Nova Kasaba, a devastated village in Serb-held eastern Bosnia, some 35 Moslem refugees cast their ballots just 250 metres from a mass grave where the corpses of their co-religionists have been exhumed by war crimes investigators.

North-east of Brcko, another of the so-called "Bosniak-dedicated polling stations" - places for Moslem refugees to vote - turned out on inspection to be a green US army tent, lit by two bare light bulbs.

Branka, a Serb election official, seemed relieved by the fact that few Moslems had come to the tent to cast ballots: "Why should they come back? I am also a refugee - from Sarajevo."

Continuing uncertainty over the status of Brcko - which links the eastern and northern parts of Serb-held Bosnia - was underlined by the strained atmosphere during a carefully staged visit to the town by two local mayors, a Croat and a Moslem.

Both men were clearly moved at their first opportunity in five years to visit their old homes, and see the factory where they used to work. However the Serb mayor - viewed as a relative moderate, but under strong pressure from local nationalist bosses - failed to turn up for a meeting with his two counterparts.

Using myself as interpreter, the Croat and Moslem officials seemed anxious to tell Mr Bildt and Mr Holbrooke of their plans to reunite the region's communities. In US-controlled land west of Brcko, a bustling market - where all sides trade in food, livestock and machine parts - is a symbol of hope.

But Mr Munib Jusufovic, the Moslem mayor, had an ominous message about the fragility of peace. "Make no mistake. If American troops pull out, the market will disappear within three days and war will break out again."

France to launch pension scheme by end of year

By Andrew Jack and David Owen in Paris

The French government yesterday stressed its determination to launch a supplementary pension scheme for private sector employees before the end of the year despite the hostile reception the plans received earlier this month from politicians within the ruling majority, unions, banks and mutual insurance companies.

In an interview with the Financial Times, Mr Jean Arthuis, minister of economics and finance, said the amended finance law to be submitted to parliament in December would contain the details of the system, which would be operating by 1997.

Mr Arthuis said that there would be tax relief for both employers and employees who contributed to the system, and that the pension ultimately drawn - which would only become available at retirement age - would be subject to normal income tax rules.

He expressed disagreement with Mr Alain Juppé, the prime minister, over the way in which the money could be used - maintaining that beneficiaries of the new pension funds should only receive investment income at retirement. The prime minister has said they should also be able to withdraw some of the capital invested.

Mr Arthuis also maintained that the funds must be managed according to the "strict regulation" to which commercial insurers are subjected.

Mr Arthuis stressed that the idea behind the new pension scheme was to create a supplementary retirement income for those who wanted one, and was not designed to replace or dismantle the existing universal state system.

A second aim was to meet the government's objective to shift savings away from products which "increased the budget deficit" such as life assurance - which are largely invested in bonds - and into pensions used to buy equities which could be productively invested in companies. "We need savings to be shifted towards investment that helps business," he said. "That is how we will create jobs."

He estimated that of France's 14m private sector employees, perhaps 1m would take advantage of the new system, ultimately generating supplementary pension contributions of about FFr30bn ($5.9bn) a year.

Politicians and business groups have been calling for pension fund reform for several years in the face of growing signs that the state system will be unable to cope with future demands as the population ages.

The unions fear that supplementary pension schemes will lead to a dilution of their influence in the state-run system, and French mutual insurance companies and banks have objected to Mr Arthuis' proposal that the new funds should be subject to the regulatory regime imposed on commercial insurers.

There are also tensions between political groups, with Mr Jean-Pierre Thomas, a member of the UDF ruling coalition, arguing that the government is ignoring parliament by overruling his proposed pension fund reforms in favour of different ones launched by Mr Arthuis.

Paris 'must set a date for start of accounting in euros'

By David Owen in Paris

France must decide in the next few months whether big French companies should be required to start accounting in euros from the planned launch of economic and monetary union on January 1 1999, according to Mr Jean Gandois, the head of the French employers' federation, the Patronat.

In an interview coinciding with the body's 50th birthday party today, in the central city of Poitiers, Mr Gandois also signalled his backing for a remodelled European exchange rate mechanism and urged the French government to extend its present crackdown on public spending over at least five years.

Mr Gandois said he thought the timing of large French companies' switch to euro accounting needed to be settled by June 1997 "at the latest". He said the trend among French companies was to say they would have fewer difficulties if they took a common decision "ratified by the state" to make the switch from the beginning of the three-year emu transition period.

But Mr Gandois - a former chairman and managing director of Pechiney, the French aluminium group, and chairman of Cockerill-Sambre, the Belgian steel company, since 1987 - indicated it might be advisable to allow a "period of flexibility" for medium-sized companies.

His remarks come two months after the Patronat warned companies to "start thinking now about the practical details of the euro's introduction". A separate study sponsored by the French central bank recently suggested big French companies could face severe problems unless they speeded up their preparations.

Mr Gandois spoke of a need to "clarify" the positions of countries that did not participate in Emu at the first opportunity but said they wanted to join at a later date. Such countries must give "precise undertakings not to use currency devaluations to improve competitiveness". A remodelled exchange rate mechanism was "certainly" necessary, he said.

Gandois: wants common decision on euro start date

On public spending Mr Gandois said it was vital that over several years France reduce public spending as a proportion of gross domestic product by at least 5 percentage points.

But while urging a sustained crackdown on public spending, he warned the government against coming down too hard on capital expenditure in its 1997 budget, due to be presented on Wednesday. If cuts came primarily in capital rather than current expenditure, economic growth - which he expected to climb next year to between 2 per cent and 2.5 per cent - would inevitably be slowed.

Mr Gandois saw no easy answer to France's chronic unemployment problem: the most effective methods to combat high unemployment were "unfortunately methods that only produced results after a certain number of years".

But he said the jobless rate - currently 12.5 per cent - was "entering into a zone of stabilisation".

He said he agreed with the bulk of last week's parliamentary report on reforming company law that argued that French magistrates should lose some of their powers to pursue investigations into corporate corruption.

The Patronat's views differed from the report in some areas, however. "We thought it would be possible to have much simpler legal rules for unlisted companies," he said.

Brussels prepares to take beef crisis by the horns

Falling prices because of the BSE scare are putting the EU farm support system under strain. Caroline Southey explains.

Shorter days and cooler evenings, the first hints of autumn, are sending a chill down the spines of EU beef farmers this year.

It is traditionally the time when many farmers bring cattle off the grass and take them to market. This autumn the flood of sales risks sparking a crisis in a market already hit by sharp falls in prices and consumption because of fears over mad cow disease.

The imminent crisis has prompted calls for urgent action by Mr Franz Fischler, European agriculture commissioner. Proposals designed to prop up the market will be discussed today by EU farm ministers meeting in Brussels. But strong political resistance to the plans means no decision on the package is expected until late October.

Some EU officials fear that might be too late.

Breaking point will come when falling beef prices trigger emergency procedures forcing the Commission to buy unlimited amounts of beef under the EU's intervention scheme. "We are not there yet. But we are not very far," said an EU official.

Prices have to fall below 60 per cent of the intervention price to set this process in train. In Ireland the average price of all grades of animal stands at 62.5 per cent and in the UK at 63.5.

"The fields are pretty full. A lot of animals will have to be bought and sold before the onset of winter. Prices are so shaky at the moment it would take little to knock off another 10 per cent," said one industry analyst.

Some estimates suggest that up to Ecu8bn ($10.2bn) has already been knocked off the capital value of the EU's 85m cattle. Overall, prices stand at between 13 per cent and 21 per cent below last year's.

Prices have fallen most sharply in the UK, France, Italy and Ireland. In Ireland prices for steers and heifers are down 12 per cent and for cows 18 per cent. In Britain the price for steers has fallen by 20 per cent. In France the price for bulls is down 21 per cent and in Germany 13 per cent.

Behind the price statistics lies a dismal picture of depressed consumption. The EU is expected to produce 7.89m tonnes of beef this year but fewer and fewer consumers want it.

In the UK, where production is set to fall by 23 per cent to 753,000 tonnes, consumption is expected to fall by 17 per cent to 745,000 tonnes. For prime cuts, the fall has been less marked, recovering to 80 per cent of levels recorded before the BSE crisis began in late March. However, mince and cheaper cuts remain 50 per cent below pre-March levels.

Similarly in France, Germany and Italy, some ground has been recovered after the big falls recorded in the immediate aftermath of the crisis. Consumption is now running at 20 to 25 per cent below pre-crisis levels after initial falls of up to 50 per cent.

Although consumption is recovering, the crisis has dramatically altered the pattern of trade across the union. Consumers are spurning beef imports from other member states, opting instead for local beef.

"We are seeing an increasing renationalisation of the markets," said the industry analyst.

In France an active campaign for domestic beef under the VF (viande française) label has raised consumption of local beef at the expense of imported meat. Ireland, one of the largest importers into France, expects its sales there to fall by up to 30 per cent this year.

Industry analysts predict that consumption will continue to recover as fears over mad cow disease recede. Nevertheless, the immediate crisis remains. Even if consumption improves this year to between 10 and 15 per cent below pre-BSE levels, the EU will still be left with between 500,000 and 900,000 tonnes of beef to dispose of, according to Bord Bia, the Irish food board.

A surplus of such proportions would continue to threaten the livelihood of farmers and the viability of the EU's beef sector.

Mopping up the excess will be dealt with partly by Mr Fischler's proposal to lift the normal intervention ceiling from the current 400,000 tonnes to 700,000 tonnes for 1996. The Commission has already bought over 320,000 tonnes into intervention this year, leaving it little room for manoeuvre over the next two months. "The more that is taken off through intervention, the less pressure there is on the market. But we do not have much spare capacity at the moment," said the EU official.

All EU member states back the plan to raise the ceiling. But a number, notably Germany, are vociferously opposed to Mr Fischler's plans for paying for it.

To find the Ecu1.7bn needed, the Commissioner has proposed cutting arable aid payments, including a 7 per cent reduction in aid to cereal farmers. Mr Fischler has warned that there is no alternative source for the money and that the cost of heading off a beef crisis has to be met from within the current budget.

"Member states are willing to do the easy bits. But they are reluctant to take the hard decisions to get the market balance back," said an EU official.

But without immediate action, the EU's beef farmers face a long, hard winter.

EU cattle prices (August, $ per kg)

	1995	1996	%age change
Britain	3.56	2.85	-20
France	3.25	2.56	-21
Germany	3.57	3.10	-13
Italy	3.17	2.54	-20
Netherlands	3.59	3.13	-13

Source: Bord Bia

EU beef surplus ('000 tonnes)

	95	96*	96**
Production	8,120	7,890	7,890
Consumption	7,820	7,038	6,647
Surplus	300	852	1,243
Change on 95 surplus		+552	+943

*Assumes 10% fall in consumption **Assumes 15% fall in consumption

Sweden sidesteps mad cow mayhem

By Hugh Carnegy in Stockholm

Bad weather, not BSE, is being blamed by Swedish farmers for a fall in beef consumption this year.

Beef sales fell 6 per cent in the first seven months of the year. But that is much less than in many other European countries and is put down to a poor peak season in June and July.

"We really don't believe the fall is due to the mad cow disease crisis," says Ms Gunilla Krantz of Slakteriförbundet, the farmers' meat marketing organisation. "It was the cold, wet spring and summer when people usually buy beef to barbeque."

A recent survey by an independent market research group bears out this belief. It found that 25 per cent of the population had taken to buying only home-raised beef since Britain declared people could be at risk from the disease. But only 5 per cent said they had cut down beef consumption as a result and merely 1 per cent said they had stopped eating beef altogether.

Why have Swedes reacted so calmly to the BSE scare? A clear reason seems to be a strong public confidence in the health and safety of Swedish meat produce engendered by years of work by the government and the farming industry to establish consumer-friendly farming practices.

In response to strong public opinion in the 1980s, the use of hormones and antibiotics as growth agents was banned. Salmonella was eradicated from the poultry flock. The use of animal remains in fodder for ruminant animals, now the chief suspected source of the spread of BSE in Britain, was outlawed in 1986. There has never been a recorded case of BSE in Sweden.

The country, which barely exports beef, had to negotiate special concessions from Brussels when it entered the European Union in 1995 in order to keep these bans in place.

Once British beef imports were banned, the public confidence in local beef seemed to extend to the remaining imports, mainly from Ireland and Denmark.

But price may also have been a factor. Beef prices have fallen 20 per cent since 1994 as joining the EU opened the door to cheaper imports. These imports, which account for 20 per cent of the 160,000 tonnes eaten a year, have been even cheaper this year as a result of the effects of the BSE affair - to the chagrin of Swedish farmers.

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NEWS: EUROPE

Mixed feelings at wider enfranchisement in German state

Under-18s vote in Lower Saxony

By Peter Norman in Bonn

It is a reform that appears to enthuse hardly anyone. But yesterday, for the first time in German history, 16- and 17-year-olds were allowed the vote.

Some 146,000 young people under 18 were among 6.2m voters entitled to elect e total of 31,000 politicians in local government elections in the stata of Lower Saxony.

Their enfranchisement – unique in Germany and possibly the world – was spproved by the state legislature last year.

The development has provoked mixed feelings, not least among the young, in the largely rural north German state.

The reform can be traced back to the efforts and enthusiam of one man: Mr Marcus Alwes, e 27-year-old member of the Young Socialists, tha Social Democratic party's youth wing.

Mr Alwes persuaded the SPD and Green parties in the state parliament to back the idea in spite of opinion polls that showed widespread opposition among the general public, little avidence of a surge of political awareness among the state's teenagers and indifference on the part of Mr Gerhard Schröder, the state'a SPD prime minister.

Mr Alwes was encouraged by an academic study which suggested that 40 per cent of 14- to 17-year-olds had a constant interest in politics and a further 30 per cent were occasionally interested. Perhaps more persuasive in furthering the project was the finding that 42 per cent of tha age group would vote SPD, against only 29 per cent who would support the Christian Democratic Union of Chancellor Helmut Kohl.

However, the author of the study apparently failad to take account of the mood swings that are endemic among 16- and 17-year-olds. More recent polls point to a declining interest in politics among Germany's youth, with those who are keen more inclined to support the CDU.

Newspaper reports from Lower Saxony suggest that the difficulties of finding an appranticeship, passing sxams or managing relationships rank higher than politics on the scale of concerns of the newly enfranchised voters.

There have baen complaints from young people of feeling patronised by established political parties.

Winning over tha young voters has not been easy for the politicians. The Young Socialists achieved some auccess with a float in Hanover's "Love Parade" in August.

The decision of the Greens and the Free Democrats to seek vates by distributing condoms with slogans consisting of sexual innuendoes pointed to a less sure touch.

Three 16-year-olds vote in Hanover yesterday watched by e 15-year-old, right AP

German minister talks of more welfare cuts

By Peter Norman in Bonn

Just two days after winning parliamentary approval for controversial cuts in Germany's social safety net, a cabinet minister warned yesterday of the need for further savings, while trade union leaders said the new law to cut sick pay could lead to strikes.

Mr Horst Seehofer, the health minister, told the Bild am Sonntag newspaper that the measures epproved by the lower house of parliament on Friday were e "minimal programme" and that Germany would "have to save much more" in the budget, on taxes and in the health and pension insurance systems.

In the same newspaper, Ms Ursula Engelan-Kefer, the deputy leader of the German trade union federation (DGB), and Mr Wolfgang Warburg, deputy head of the public service workers union (öTV), warned of strike action if employers acted to cut sick pay by cancelling or refusing to renew existing arrangements that had been agreed through collective bargaining.

The newly approved law to cut sick pay to 80 per cent of recent earnings from 100 per cent has proved one of the most contentious of the measures in the government's "programme for more growth and jobs" that has been going through parliament since April.

Although the full replacement of earnings has encouraged widespread absenteeism and led to the extraordinary situation of some employees earning more when ill than when at work, the government's action has hit a raw nerve among union leaders. The previous generous sick pay rules were woo after a bitter industrial dispute in the 1950s and stood as e symbol of union power. Now thet the law has changed, many businesses have made clear that they will apply the oew rules once they come into force in November.

Union anger will increase further if, as expected, the government acts to cut unemployment beoefits further. Several ministers, including Mr Theo Weigel, the finance minister, hinted at such ection in last week's debate on the first reading of the 1997 federal budget.

Island on the front line holds its fire against Turks

Kerin Hope on relations with Ankara in the Aegean as Greeks prepare for election

People on Symi, e small Greek island in the Aegean with a flourishing tourist trade, hold strong views on Greek-Turkish relations. If tensions between the two notional Nato allies ever exploded into war, they fear that their island, six miles off the Turkish coast, would be invaded.

Mr Miltiades Sarris, the mayor, is in his 40s but still has to attend military training every year. A Greek navy patrol boat is moored close to the town hall, an elegant waterfront mansion built when Symi had grown rich from trading privileges granted by the Ottoman sultans.

Concrete bunkers overlook the nearby coves where tourists go swimming.

Mr Sarris says: "Keeping peace in the Aegean should be the politicians' priority. We get along fine with the Turks: we exchange visits and we're trying to organise a cross-border conference with our opposite numbers in Daca, the resort across the strait. The problem is that policy is decided in other places."

While Greek policy towards Turkey matters more to voters on Symi and the other Dodecanese islands, which are seen as Greece's frontline with Turkey, it is likely to have a broader impact in Greece's geoeral election next Sunday.

Mr Costas Simitis, the Socialist prime minister, wants to improve ties with Ankara.

As well as boostiog trade, this would allow the government to cut defence spending amounting annually to some 5 per cent of grosa domestic product – the highest percentage emong EU members.

The conservative New Democracy party, campaigning on an unashamedly populist platform, takes a tough line towards Turkey. Its leader, Mr Miltiades Evert, claims that Mr Simitis humiliated Greece by accepting US mediation to defuse a stand-off with Turkey in January over the uninhabited Imia islets.

Though opinion polls indicate that voters care more about economic issues than foreign policy, Mr Simitis's determination to deal with the Turks could cost him some votes.

His coolness reinforces the impression that he lacks the stature of his predecessor, the late Andreas Papandreou, whose anti-Turkish rhetoric could be counted on to rally support for the Panhellenic Socialist Movement (Pasok).

In a joint television interview with Mr Simitis at the weekend Mr Evert said his handling of the Imia crisis had weakened Greece in its dispute with Turkey about sovereignty over small Aegean islands. Mr Simitis snapped back that, faced with a similar crisis, he would do "exactly the same thing".

However, nationalist feeling towards Turkey runs high, not just among conservatives but also in Pasok's hardline faction. Only a convincing election win would allow Mr Simitis to seek hawkish cabinet members and try to restart bilateral talks with the Turks.

Television viewers on Symi, where Pasok usually captures two-thirds of the vote, shrugged off Mr Evert'a attacks.

Mr Philemon Alfaras, e civil engineer, said: "Confrontation is the last thing we need. There's too much money to be made from cooperating with Turkey to boost tourism in this part of the Aegean."

Many eastern Aegean islands saw a wave of emigration after Turkey's 1974 invasion of Cyprus, with people from smaller islands moving to Rhodes, the largest centre in the Dodecanese. However, the trend started to reverse after the Socialist governments of the 1980s poured funds into border areas and tourism extended to remote islands.

Symi has done so well out of tourism that its population has grown by 20 per cent to 2,800 in the past 10 years. Construction is booming as the islanders restore their neo-classical houses for conversion into small hotels, or for sale to people from other EU member-states who are now permitted to buy property in Greece's border areas.

The islanders no longer depend on mainland shipping companies for transport links: Symi's joint-stock ferry company runs a profitable catamaran service to Rhodes.

Its telephone service was upgraded under e special "crash programme" for Rhodes, funded by the EU.

Mr George Kalodoukas, a travel agent who offers visitors a trip up Symi's only mountain to drink champagne and watch the sunset over Turkey, says: "Unlike the big islands, we haven't seen a decline in tourism, or in the quality of visitors in the past few years. We didn't have any cancellations after the Imia incident."

Yet despite their rising living standards, the islanders criticise the Socialist politicians for delaying projects needed to underpin the tourist trade.

Plans to build e sewage treatment plant, which would be funded by the EU, have been postponed. Water has to be shipped year-round in tanker vessels from Rhodes because of delays in a government drilling programme.

Mrs Katerina Tsavaris, who moved back to Symi with her husband to open a shop selling imported kitchenware, says: "Unlike most small islands, we have two schools filled with small children but we still heve to take them to Rhodes to see a pediatrician. Living here, you think much more about practical problems than about the Turks."

Show of strength shows US weakness

But Saddam is kept in his box, writes Patti Waldmeir

President Bill Clinton set out to demonstrate his strength in dealing with President Saddam Hussein of Iraq, and be may make another show of strength in the days to come. But be has succeeded in demonstrating almoet exactly the opposite: that US policy in Iraq is severely conetrained – by international dissent, by Washington's own aversion to risk, and by regional realities.

US policymakers will continue to declare the victory of their policy of "containing" Mr Saddam. The White Houee tbie weekend deployed a battalion of officials to do just that. Their message was clear: US policy is to keep Mr Saddam "in his box", a phrase used by speaker after speaker. For the moment, be is in thet box; and the moves taken by the US over the past fortnight – specifically, extending the "no fly zooe" south – will ensure that he steys firmly boxed in future.

The White House policy has been questioned harshly. How could Mr Clinton claim containment, when Mr Saddam had in effect conquered the oorth, undermined the Gulf war coalition mounted against him, and suffered little more than symbolic damage to his air defences in the south?

Patiently, the administration replied: the goal was to "contain Saddam Hussein, to keep him from threatening his neighbours, to constrain and restrain him, to keep him from moving south" said Mr Warren Christopher, the secretary of state. And that had been achieved by extending the area of southern Iraq over which Iraqi aircraft cannot operate.

With allied no-fly zones in force over all bnt three degrees of latitude in the middle of Iraq – less than the distance from Washington to New York, pointed out one administration official – Mr Saddam's ability to threaten his southern neighboure is severely constrained. "So when Saddam wants to threaten something that's really important to us – like where 20 per cent of our oil come from – we're going to have lots more warning time, much greater flexibility in responding, and that will strengthen deterrence."

So, for the moment, the US appears to be satisfied there is no alternative to the policy of the past four years. Asked repeatedly at the weekend whether the US goal was to overthrow Mr Saddam, the administration backed away: "It'e very difficult to solidify international opinion behind getting rid of somebody," an official explained.

Western allies do not wish the US to depose Mr Saddam; neither do his neighbours, wbo have a far less acute sense of the threat he poses than do policymakers in Washington.

So whatever happens over the next few days, it appears that US Iraq policy is on "hold". More may be done in the direction of deterrence; with perhaps another high-profile attack, as much for domestic political reasons as for any strategic considerations.

Bnt US officials make clear they see no reason for a fundamental change in direction. They expect Mr Saddam to continue issuing periodic cballenges and causing occasional confrontations, and they accept this as inevitable. "We have to weather this crisis, not let it bother us too mnch, and stay focused on the purpose of all this: to keep the noose tied around Baghdad," said one policymaker.

That will require diplomatic moves, as much as or more than military ones, to strengthen what US officials describe as the core of their policy, the sanctions against the Iraqi regime.

They accept that lasting damage cannot realistically be done to the Iraqi regime by attacking what one official described as "rusty Russian SAM [surface-to-air-missile] sites in the south." The focus, in the long term, will be to cement international opposition to Mr Saddam – the purpose of this weekend's diplomatic shuttle by Mr William Perry, the defence secretary.

In the short term however, anything is possible, ranging from no action at all to tough strikes against Iraqi targets. Still, having charged to the brink of seemingly immediate confrontetion last week, when Mr Perry promised "disproportionate" action against Baghdad, Washington has now paused.

Mrs Madeleine Albright, US ambassador to the UN, put it most clearly: the US would not be pressed into "over-reacting", she said. The administration would watch and wait for further provocation from Mr Saddam and would be guided by his actions. But she added: "It looks as though Saddam Hussein is not going to do anything else." The prospect of immediate confrontation appeared to have receded.

PUK leader clings to the Kurdish dream

Talibani is putting a brave face on defeat by KDP. Kasra Naji spoke to him in a border camp

KDP fighters (left and right) guard captured PUK fighters yesterday at the local KDP headquarters in Qal'at Dizah

Sitting cross-legged under a walnut tree at the foot of a mountain in Iraqi Kurdistan, just kilometres from the Iranian border, the leader of the Patriotic Union of Kurdistan, Mr Jalal Talibani, put on a brave face over the military defeats he has suffered from the rival Kurdistan Democratic party.

"In guerrilla warfare you can always win or lose control of the cities. The important thing is to keep your forces. If you lose your forces, then you will lose everything," he said. Judging by the number of well-armed *peshmergas* – literally selfless fighters – in the border areas, it seems that he has indeed kept them.

But there was no attempt to hide the truth. "We have lost two battles but not the war," he said referring to the loss, in the last two weeks, of control of Iraqi Kurdistan's capital, Arbil, as well as the city of Sulaimaniya.

It was a comprehensive defeat for his forces, which have been fighting an intermittent war with the KDP for the past two years. Mr Talibani says his forces were defeated only because of the support by Iraqi forces of the KDP guerrillas on August 31. Iraqi tanks were no match for the Kurdish *peshmergas*.

"I blame the US and its allies for failing to protect the Kurds as they had promised," he said, referring to the establishment by the western allies of the 36th parallel as a border for a "safe haven" – a de facto border of Iraqi Kurdistan beyond which Iraqi forces would not be allowed to go.

"We informed the Americans that the Iraqi tanks were advancing beyond the 36th parallel threatening to enter Arbil. We received no response. We were looking to the skies expecting American planes to bomb the Iraqi tanks any moment. We waited until four o'clock but no planes came. I ask you, what happened to the promise of safe haven?"

Earlier, he had addressed a rally of at least 2,000 of his *peshmergas*. He told them Mr Massoud Barzani, leader of the KDP, had shown his hand by aligning himself with President Saddam Hussein.

"You are not alone," he told his men. "Not only international public opinion, but also the whole of the Iraqi opposition groups and parties are with you. We have won the political campaign," he said. There are already reports that even Mr Barzani's own men are very angry with his new alliance with Mr Saddam.

Mr Talibani's men are demoralised, however. At least 50,000 Kurdish men, women and children have fled to the deserts and mountain passes of the Iran-Iraq border. They are mostly the relatives of *peshmergas* or those associated in one way or another with the PUK.

They are hungry and thirsty and mostly defenceless against the blazing sun in the days and the cold at night. The cold has already claimed the lives of several children, according to a doctor at one of the camps set up by the Iranian authorities.

The Iranians have been providing some tents, blankets and bread. But the supplies are meagre compared to the scale of the problem. In spite of their misery, there was no bitterness towards Mr Talibani among the refugees. However, there was a great deal of animosity towards the US, which they all blamed for inaction.

"What's the use of bombing military installations in southern Iraq, when Iraqi tanks were bombarding us in Arbil?" said one woman.

But Mr Talibani has literally been here before. In 1977, a year after he had announced the establishment of the PUK in exile in Syria, and when Mr Saddam's forces were in total control of Iraqi Kurdistan, he arrived in this valley to regroup and reassemble his men for another round of guerrilla warfare for the control of Iraqi Kurdistan.

Today he is doing the same. The priority is to take back the countryside and then the cities. His mobile radio station has now been moved through the Iranian territory to another spot in northern Iraq.

It's an important medium through which messages will get through to *peshmergas* and supporters. "In less than a week, we shall start our new campaign," Mr Talibani said.

But seeing Mr Talibani, his men, and tens of thousands of refugees in miserable conditions, it is easy to wonder whether the situation today in northern Iraq is not the bitter proof of the failure of the Kurdish experiment of the past six years.

After the establishment of the safe haven in northern Iraq in 1991, the Kurds held a successful election for a regional parliament and set up an administration of their own. For once, the Iraqi Kurds were in control of their own destiny and their own affairs. The autonomy that they had fought for so long had been achieved. Kurds in neighbouring Iran and Turkey watched the experiment with hopes of their own.

For many Kurds the dream has turned into a nightmare. Mr Talibani however sees it as a natural evolution of history of Kurdistan. "It's part of the struggle. It's not a fratricide war, it's a fight between Kurds and those who have sided with the enemy of the Kurdish people."

INTERNATIONAL NEWS DIGEST

Brussels to act on cotton

The European Commission is this week expected to announce an anti-dumping action against imports of undyed cotton fabric from six developing countries.

The action, which will affect £400m of fabric imports, was requested by French and Italian cotton weavers. However, European fabric finishers argue the move will not help weavers but will threaten thousands of jobs in the textile dying, printing and finishing sectors.

The action is expected to be taken against imports from India, Pakistan, Indonesia, China, Taiwan and Egypt. These countries account for more than half the unfinished cotton fabric imports into Europe.

Eurocotton, the trade body that has won a two-year battle for intervention, claims developing country producers were undercutting German, French and Italian weavers by 28-36 per cent. *Jenny Luesby, London*

Africa's problems 'worse'

Results half way through the United Nations' programme for Africa in the 1990s "have fallen far short" of expectations, according to a UN assessment* published today.

Many of Africa's problems have become even more acute since the New Agenda for the Development of Africa in the 1990s was launched by the UN General Assembly in December 1991, the UN says.

Despite some signs of "tangible progress", including a recent quickening of economic growth rates and the spread of democracy across the continent, Africa "continues to be plagued by economic and social woes".

In 1995 a dozen African countries achieved the UN target of 6 per cent annual growth in gross domestic product, and the number of countries with negative growth rates fell from 19 in 1992 to three in 1995.

Nevertheless, Africa's population growth of 2.9 per cent outstripped average GDP growth of 2.3 per cent last year, resulting in a further decline in per capita incomes of 0.6 per cent. The continent's share of world GDP has shrunk to around 2 per cent while its share of world population rose to some 12 per cent in 1995. *Frances Williams, Geneva*

**Mid-term review of the UN New Agenda for the Development of Africa in the 1990s. Africa Recovery, Room S-931, UN, New York 10017, fax (212) 963 4556.*

WTO 'secrecy' attacked

An international environmental think-tank has accused the World Trade Organisation of failing to inject environmental concerns into the trade policy debate and of maintaining the same secretive and inefficient working methods as its predecessor, the General Agreement on Tariffs and Trade.

Launching a "progress report" on the WTO's first two years*, Mr David Runnalls of the Canada-based International Institute for Sustainable Development said the WTO had "failed to integrate sustainable development concerns into trade policies and still conducts its business behind closed doors".

The report also criticises the WTO's reluctance to develop links with other bodies, especially non-governmental organisations, and says the WTO's trade and environment committee is set to continue a 24-year "record of futility". *Frances Williams*

**The World Trade Organisation and sustainable development: An independent assessment. IISD, 161 Portage Avenue East, 6th Floor, Winnipeg, Canada R3B OY4, fax (204) 958 7710.*

Hope for chemicals treaty

Negotiators from 100 countries meet in Nairobi today to hammer out a globally binding treaty which would regulate international trade in some of the world's most hazardous chemicals.

Mr John Whitelaw, of the UN's environmental arm, said he was optimistic that agreement would be reached, although a draft treaty was unlikely to incorporate demands by some countries that it should also serve as an instrument for banning chemicals. The treaty would make legally binding a currently voluntary system which provides importing governments with up-to-date information about a critical list of chemicals, including other countries' chemical bans. *Leyla Boulton, London*

Moroccan voters back reform

Morocco's plans for a new two-chamber parliament and decentralisation to the regions, hailed by party leaders as a turning-point in the country's political evolution, received overwhelming backing from voters in Friday's referendum.

Official results showed the turnout was almost 83 per cent, with 99.56 per cent of valid ballots in favour of the changes.

Votes against the constitutional reform put forward by King Hassan totalled only 45,000, compared with more than 10m "yes" votes, and in some districts the official result was unanimous. *David White, Rabat*

Egypt goes to Moody's for debt rating

By Sean Evers in Cairo and Samer Iskandar in London

Egypt has asked Moody's, the US credit rating agency, for a sovereign debt rating only days after finance ministry officials said the country had no need or desire to borrow on the international capital markets.

Officials familiar with the procedure believe Egypt has taken the initiative to secure a rating because Moody's was in the process of producing an unsolicited rating.

Borrowers awarded unsolicited ratings often complain their ratings are unduly low. In the US, the Justice Department is investigating this practice after complaints by borrowers that unsolicited ratings had increased their costs.

Analysts from Moody's are in Cairo, working on the rating with Egypt, which has asked two investment houses, EFG Hermes and Goldman Sachs, to act as advisers. Details are expected before the November Middle East and North Africa economic summit.

Whatever the reasons of the timing, observers believe Egypt stands to gain from a rating, which could narrow the gap between investors' perceptions and the current reality of the country's risk.

A government official close to the preparations explained thet "six months ago the perception of risk in Egypt was about a Moody's Caa rating . . . However I think Moody's grade will be just below investment grade at Ba1".

The difference between the two ratings is substantial: a Caa rating implies the debt is "in default", according to the New York Federal Reserve, while a Ba1 rating is only one step ebort of "investment grade", which denotes "adequate payment capacity".

An investment grade of Baa2, for example, would allow Egypt to borrow at a cost approximately 1 percentage point higher than US Treasury bonds. This margin would increase to around 2.5 points with a speculative rating of Ba2.

Mr Mulham Alwani at HSBC Markets said: "The investor community would accept Egypt as investment grade, but in the cold light of day it is probably just below investment grade."

Arabs tie Israel relations with Mideast peace

By Sean Evers and agencies

Mr Farouk al-Sharaa, Syria's foreign minister, said yesterday that Arab states had agreed to link relations with Israel and progress in the Middle East peace process.

Arab foreign ministers, meeting on the sidelines of the 106th session of the Arab League in Cairo at the weekend, have propoeed a new course of action to respond to what Arabs see as Israeli intransigence on Middle East peace.

At a summit in June, Arab leadere said they would reconsider normalising relations with Israel if tho new rigbtwing government in Israel led the peace process down a dead-end street.

A Lebanese official close to the meeting said the proposals called on each Arab country that bad made "engagements with Israel, to review these engagements". The proposals will now be passed on to the Arab heads of state.

After a formal Arah League meeting on Saturday, Mr Yassir Arafat, bead of the Palestinian state, said: "There is an attempt only to make a political show, to give the impression that there is a tendency from the Israelis to move in the right direction, while on the ground there is nothing concrete in our hands."

Mr Amr Moussa, Egypt'e foreign minister, declined to give any details on the proposed new course of action, but Arab diplomats said the proposal included a boycott of mnltilateral talks with Israel and other restrictions on negotiations.

A decision to slow down mnltilateral relationo between tbe Arabs and Israel could derail the Middle East and North Africa economic summit scheduled for November 12 in Cairo.

President Hosni Mnbarak of Egypt has already threatened to cancel the economic conference unless the Israeli government starts meeting its peace commitments.

The Israeli primo minister, Mr Benjamin Netanyahn, yesterday brusbed aside Egypt's threats to cancel the conference.

Syria and Lebanon have been boycotting the multilateral talks on regional co-operation since tho peace process began in 1991.

NEWS: ASIA-PACIFIC

Patten firm over HK legislature

By John Ridding and Philip Stephens in Hong Kong

Mr Chris Patten, governor of Hong Kong, has issued an 11th-hour warning to Beijing, pledging a tough stance to defend the territory's legislature and claiming China's plans to replace the body threaten a smooth handover next year.

Speaking as China pushed on with preparations for a provisional legislature, Mr Patten said such a body would be "a focus for confusion and public discontent". Dismissing speculation of a compromise, in which pro-democracy legislators might be drawn on to the body, he added: "The Chinese know our position. We are not going to negotiate about least bad solutions... we are totally opposed to a provisional legislature."

With Beijing proceeding with preparations to replace the Legislative Council, the issue has emerged as the most serious remaining obstacle to a smooth handover on July 1 next year. It threatens to overshadow progress on bilateral issues, such as an expected agreement on a new container terminal, and to undermine a recent improvement in Sino-British relations.

Nominations for a 400-member committee which will choose the provisional legislature and the territory's post-colonial governor closed on Saturday, marking a big step towards establishing the body. Almost 6,000 people put their names forward and membership will be decided by the 150-strong Beijing-appointed Preparatory Committee.

Chinese officials say the provisional legislature will deal only with preparatory work ahead of the handover. But members of the existing legislature – elected last year for a four-year term under Mr Patten's political reforms – fear their position will be undermined, while government business would face severe disruption.

Mr Patten dismissed claims of differences with tha British government, citing statements by Mr John Major and Mr Malcolm Rifkind. "What the prime minister and the foreign secretary have said is actually a lot firmer and more explicit than anything I have ever said," said Mr Patten.

Mr Rifkind has said Britain would bave a duty to pursue every legal avenue, along with others, available if there was any suggestion of a breach of the Joint Declaration, the Sino-British treaty governing the handover.

"It is extremely difficult to see how Chinese officials can say the establishment of a provisional legislature before June 30th could be in line with the obligations in the Joint Declaration," said Mr Patten.

Mr Patten, however, promised full co-operation with the chief executive-designate, who will head the post-1997 government, and said he favoured a rapid decision on the post. "The sooner, the better... I have always thought that it would be easier to deal with contentious issues when there was somebody in place who was going to have real responsibility from next summer onwards."

N Korea 'may need to join World Bank'

By Peter Montagnon, Asia Editor, in New York

North Korea may need to join the World Bank to finance essential improvements to its electricity grid, according to the head of the international consortium supplying the country with safe nuclear generators.

The new nuclear reactors will not work without modernisation of the grid because they need an assured source of power which North Korea cannot guarantee at present, said Mr Stephen Bosworth, executive director of the Korean Peninsula Development Organisation (Kedo).

"To finance the cost they're going to have to change a lot of things," he said. "The most obvious source of finance would be the Asian Development Bank or the World Bank, but they have yet to decide to join one of those."

Kedo, which numbers 13 governments among its members, was set up after the US reached agreement with North Korea to supply it with safe light water power generation in return for its decision to freeze and then scrap its previous graphite reactor programme. The agreement was negotiated amid fears that spent fuel from the graphite reactors could be used to produce weapons-grade plutonium.

Mr Bosworth said the cost of the project was likely to exceed original estimates of $4bn-$5bn and admitted the year's delay spent negotiating specifications for the new reactors meant it would be "very difficult" to meet the target date of 2003 for completion.

But he said Kedo had now become an operational entity rather than "a figment of someone's imagination". Preliminary work on the reactor site in North Korea was to start within weeks, so contractors would be able to work through the harsh winter months.

North Korea had pressed Kedo's founding governments – the US, Japan and South Korea – to include modernisation of the grid, but while they agreed it was necessary, they considered it a separate project from provision of the reactors, he said.

The total cost of grid improvements was likely to be $200m-$300m. This was a large sum for a country as short of foreign exchange as North Korea. It would almost certainly need help from an international development bank.

"Otherwise we're going to finish these reactors and they're going to sit up there, unless they can find some private source of financing, which, under current circumstances, I consider unlikely," Mr Bosworth said.

Kedo was still calculating the total cost of the reactor project and it was not clear how the burden would be shared if it turned out much higher than originally expected, he added. The agreement provides for South Korea, whose Kepco utility is to manage the project, to play a central role and Japan to play a significant one.

These two countries are expected to cover the capital costs as contributions from other members go towards a separate provision to provide North Korea with 500,000 tonnes of heavy fuel oil annually while the reactors are under construction.

The European Union, which sent officials to last week's Kedo annual meeting in New York, had indicated a willingness to make an annual and sustained contribution to Kedo, probably of about Ecu15m ($19.2m). "This would go a long way towards solving some of our financial problems," Mr Bosworth said.

There was also an improved prospect of the US meeting its full $25m commitment this year after the Senate voted in favour of such a payment in July.

North Korea yesterday said it had clinched $282m in deals with foreign businesses, Reuter reports from Rajin. The contracts, signed at a three day forum on investment in the Rajin-Sonbong free trade zone, ranged from hotels to motorcycle plants.

North Korea is hoping to create a 750 sq km free trade zone in the north-east. Confirmed deals included a $180m plan by the Emperor Group of Hong Kong to build a five-star hotel on the coast near Rajin. The group would invest an additional $30m in a banking venture, a North Korean official said.

Japan goes back to the drawing board

William Dawkins on a massive increase in research expenditure

It may stretch credibility that Japan, the great industrial innovator, is gripped by fear that it may, by default, have become one of the advanced world's laggards in basic science and technology research.

Policy-makers are worried, however, that Japan's lateness to exploit key technologies, from the information highway to materials science, is a competitive handicap. This is what lies behind the government's recent decision to double publicly funded research and development spending to Y17,000bn ($155bn) over the next five years.

A parsimonious financa ministry can be expected to chip away at how much money will be spent. Even so, this plan is serious. It was agreed by parliament in July, with cross-party support and the blessing of the Ministry of International Trade and Industry. Detailed preparations for spending the money are under way.

The first project to be funded by the new budget is a brain research centre to open in Saitama, a north-west suburb of Tokyo, early next year, with an annual budget of Y100bn, 100 times more than the Japanese government allocates to this field than at present. It

Other projects include the creation of what the government's Science and Technology Agency calls a "super-steel" with double the strength and life of normal steel, and a 10-year plan for a super-computer "earth simulator" for weather and earthquake forecasting.

All this is the fruit of a proposal put together last October by a former Miti official, Mr Koji Omi, now a member of parliament for the ruling Liberal Democratic party, with the backing of the main political parties. It is unusual for Japanese legislation to be prepared by politicians rather than the bureaucracy, a mark of anxiety over Japan's perceived brain drain.

"Parliamentarians share this sense of insecurity over the future. Wa can no longer assume, as we did in the high growth of the 1980s, that we are number one in manufacturing technology," says Mr Toshio Ochiai, who as director general of the agency's planning bureau is responsible for getting the plan off the ground.

Among the impediments to innovation which the scheme aims to dismantle, he lists the following:

- Companies' growing focus on short-term survival at the expense of long-term planning they favoured when they were more confident of holding their position as world beaters.
- A sudden decline in Japanese technological competitiveness in several key sectors.
- The puny role which government plays in research and development compared with the US and Europe.

For much of Japan's economic growth following the second world war, companies were content to borrow the "seeds" of new technology from foreign competitors, says Mr Ochiai. Trade tensions and the globalisation of these markets have rendered that strategy obsolete. But rather than redoubling basic long-term research to compensate, Japanese companies have been obliged by the yen's strength and the stagnation of their domestic market over the past five years to focus on cutting costs. Corporate R&D led a sudden decline in overall technology spending, the first such post-war fall, just after the economic downturn in 1991.

According to an agency survey last May, carried out by a panel of top Japanese scientists, Japanese companies' basic research has lagged behind the US and Europe over the past five years – measured by the admittedly subjective standard of quality – in life sciences, materials, oceanography, and most worryingly, telecommunications and electronics.

Another concern is the growing amount of R&D which companies are moving out of Japan, in search of lower costs and proximity to emerging markets.

The answer, the government believes, is for the state to fill the gap left by companies.

On the surface, Japan should have little to fear. Even after the recent fall in R&D spending, it still leads the world in terms of the share of national wealth devoted to public and private sector R&D, with 2.8 per cent of gross domestic product in 1994 against 2.4 per cent in the US and France. But the government's share is much lower: a fifth of R&D spending, as against 36 per cent in the US and 46 per cent in France.

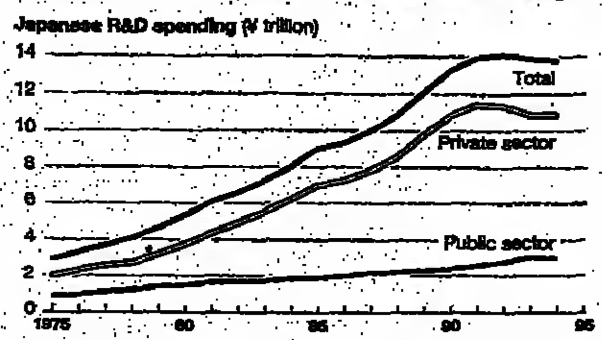
The plan would bring state R&D spending closer to rivals' levels. But that only invites the question, admits Mr Ochiai, of whether throwing government money at the problem is sufficient. Failed state technology ventures in the west – as well as in Japan – suggest that it is not.

That is why the Japanese plan proposes wholesale changes in the working lives of its 640,000 under-performing and underpaid researchers. For example, rather than being given life-time employment contracts, research workers are to be hired from next year merely for the duration of their projects.

It all demands a radical break with the state science sector's existing sleepy culture. Then again, the ability to meet commonly agreed objectives is one of the Japanese system's great strengths.

Japan R+D: a case for renewed study

Japanese R&D spending (¥ trillion)



International comparison of indices in science and technology

	Japan	US	Germany
R&D spending in ¥ trillion	13.6	17.3	4.5
R&D spending as a % of GDP	2.84	2.44	2.33
Government % share of R&D spending	21.6	36.1	37.2
Private sector's % share of R&D spending	78.4	63.9	61.1
Number of researchers (in thousands)	64.7	96.3	23.6

Source: Science & Technology Agency

Sell-off of state enterprises has raised up to $18bn a year, report says

Privatisation boost to economy

By Gillian Tett, *Economics Correspondent*

The privatisation of state enterprises such as British Steel and British Telecommunications has benefited the UK Treasury by between £6.7bn and £11.6bn ($10.45bn and $18.09bn) a year over the last 10 years, according to a report today.

The report, which covers 33 UK companies privatised since the early 1980s, was commissioned by the Centre for Policy Studies, a think-tank that supports the ruling Conservative party. However, the research was carried out by the independent group National Economic Research Associates.

The report argues that in 1980 the state-owned companies were absorbing £483m of government money in the form of subsidies and loan finance. By 1987 they were contributing £8.4bn to the government, and have continued to generate large inflows for the Treasury ever since. The highest, according to the data, was in 1993, when the inflow was £11.6bn.

Part of this reflects the sales of shares in the companies, which have generated average annual net proceeds of £3.5bn since the 1984-85 financial year. The government has also received annual net receipts from taxation and dividends of between £3.3bn and £5.8bn since 1986-87.

This additional bonus reflects:

- an increase in corporation tax receipts due to rising profitability;
- dividend receipts on the shares that the government has retained in companies such as BT and Powergen;
- continued intereet receipts and repayments on the debt these companies still owe to the government.

The report cites the 1994 BT privatisation as a particularly successful story: it points ont that the company not only yielded more than £13bn in sales proceeds, but has also generated more than £1bn a year in corporation tax, dividends, interest and debt repayments.

British Steel' is also deemed an "extraordinary story": although the company was absorbing state money in the early 1980s, it generated corporation tax proceeds of £208m between 1988 and 1995.

The report's findings are likely to revive charges by the opposition Labour party that the level of profits achieved by the privatised companies demonstrates thet they were sold too cheaply. It will also fuel suggestions that a Labour government should impose a windfall tax on profits.

Mr Alistair Darling, Labour's shadow Treasury chief secretary, said: "The conclusion [that privatisation benefited the economy] is not surprising given the source of the study. We believe that the windfall tax has every justification."

Editorial comment, Page 15

Freight trains slow to deliver the goods

Privatisation has yet to exploit the full potential of the rail network

Britain's privatised rail network wants to win back freight business lost to the roeds. But attempts to reclaim freight shipments are heing hampered by the high level of track access charges, the government's meanness with subsidies, and delays in the privatisation of British Rail's freight operations.

When the break-up of BR and the privatisation of rail assets was launched 2½ years ago it was welcomed by hauliers and companies shipping goods as promising a much improved service to industry.

The expansion of the motorway network and the low cost of road haulage had led to a decline in rail's share of total freight transport from 42 per cent in the 1950s to just 7 per cent.

BR had long been criticised for failing to provide a customer-friendly service to freight shippers. Reliability was poor and the calculation of costings often appeared eccentric, while the relatively sbort distances involved in many UK freight movements meant that rail was not viable.

But while the first signs are beginning to emerge of improvements in passenger services after privatisation, freight is still failing to exploit its full potential.

Negotiations between English Welsh & Scottish Railway (EWS), the US-owned company that handles bulk freight shipments, and Railtrack, owner of track and signalling, aimed at creating e cheaper, more flexible track access regime, bave become bogged down.

EWS, which was acquired last February by Wisconsin Central Transportation, wants to replace individually negotiated track agreements with a simple tariff. At present EWS cannot respond quickly to customers seeking a quote for rail shipments because it can take Railtrack up to six months to calculate its track access charges.

Meanwhile, subsidies intended to promote rail freight are being doled out with such reluctance that they are only having a marginal impact on freight volumes. An investigation by the UK's National Audit Office into the freight facilities grant, which funds freight terminal equipment, found that the Department of Transport had disbursed only £32m ($50m) out of £70m available between April 1985 and March 1996. Many shippers are reluctant to commit themselves to move specific volumes until they have seen how well rail performs.

A third factor holding back freight volumes is the difficulty the government has had selling off BR's freight businesses. Uncertain about future ownership, some shippers have scheduled consignments by road rather than rail.

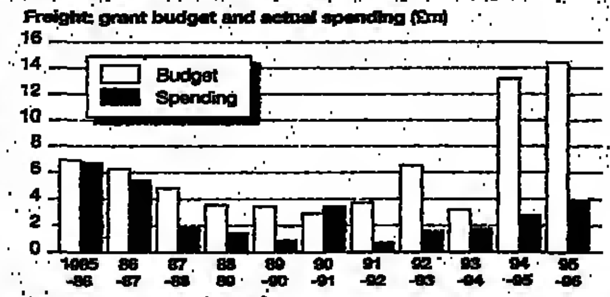
Freightliner, which handles domeetic container shipments, was twice withdrawn from sale before being finally sold to its management team last May. BR's Trainload Freight business, now renamed EWS, was initially broken into three companies but then offered as a single entity. The final part of BR freight, the Railfreight Distribution division, which takes containers through the Channel tunnel, is expected to be privatised by early next year.

The government is keen for freight to shift back to rail and shippers want to broaden their options. While a rapid reversal of the decline that has taken place may be too much to expect, ministers and railway managers are hoping for some sign that privatisation can deliver the goods.

Charles Batchelor

Decade down the track

Freight: grant budget and actual spending (£m)



Rail statistics (year to March)

	1992	1993	1994	1995	1996
Receipts (£m)	657.6	634.8	565.4	514.2	433.8
Traffic (tonnes m)	135.6	122.4	103.3	97.4	94.0
Net tonne miles (m)	9,537	9,637	8,563	8,073	7,790

Sources: British Railways Board, Department of Transport

Sterling's rise 'had long-term effect'

By Vanessa Houlder and Gillian Tett

The appreciation of sterling in the early 1980s permanently damaged the UK's trade performance, new academic research has found.

A report, published by the National Institute of Economic and Social Research today, says that the temporary surge in value of sterling between 1979 and 1981 lead to a sharp rise in imports. The increase continued throughout the 1980s – even though sterling subsequently weakened, the report adds.

The findings are likely to fuel the debate about the wisdom of the UK becoming locked into a European currency union.

A separate survey of directors of quoted companies published today has found that e majority of UK business leaders believe that joining in European monetary union would damage the UK's economic health. Nearly six out of ten of the directors surveyed are opposed to monetary union, believing that it would push up unemployment, taxes and interest rates.

Almost 70 per cent believe that the UK should exercise its opt-out clause and postpone adoption of the single currency beyond its planned start date of 1999. Nearly three-quarters believe that monetary union would be a prelude to political union; even more condemn that prospect.

The survey, which was condncted by Hemmington Scott and sponsored by Price Waterhouse, is based on 392 responses to 10,500 questionnaires sent out in July.

However, the results contrast with some earlier surveys, such as a poll of 5,000 companies of all sizes that was conducted in November by the Confederation of British Industry and the British Chambers of Commerce. This showed that business was positive about the benefits of a single currency.

UK NEWS DIGEST

Elderly care insurance urged

The UK should introduce compulsory national insurance to finance future long-term care of the elderly, an independent inquiry by the Joseph Rowntree Foundation recommends today.

The report proposes initial compulsory insurance contributions of about 1.5 per cent of earnings, which would produce more than £3bn ($4.68bn) a year.

Provision of long-term health and personal care under the inquiry team's proposals would, like NHS hospital care, become free for everyone. But people with the means to do so would meet the costs of accommodation and food in residential homes.

Alan Pike

■ WORKPLACE STRESS

More managers struggle to cope

Workplace stress has become one of the most dominant concerns of UK managers, the Institute of Management says today.

More than half of a sample of 1,000 managers said increasing demands of work were affecting their health. This compares with 40 per cent of a similar sample when the survey was first carried out in 1993.

Extra workloads meant 84 per cent were working in excess of their official working week. Half the respondents said they took work home.

Every day, about 270,000 people take time off work in the UK because of work-related stress; the annual cost in sick pay, lost production and health service charges is reported to total £7bn ($10.92bn).

Richard Donkin

■ TELECOMMUNICATIONS

Operators 'poorly organised'

The UK's telecommunications operators are poorly organised to benefit from their customers' ambitions to move into "electronic commerce" and will find themselves sidelined by information technology groups, according to the first phase of a long-term research study into multimedia network services sponsored by the Department of Trade and Industry, IBM, HSBC James Capel, Mercury Communications and Global One, the joint venture between Deutsche Telekom and France Télécom.

The study, published today, includes interviews with 73 operators, customers and analysts. There are about 150 licenced operators in the UK including British Telecommunications, Mercury, Energis and the cable companies, and the study is comprehensively damning in its criticism of their capabilities.

Alan Cane

■ MOTOR INDUSTRY

Jaguar claims quality victory

Jaguar Cars' Browns Lane factory near Coventry in the Midlands has taken over as the best quality plant in parent Ford's network worldwide, and its cars are now higher quality than those of its German rivals, Jaguar chairman Mr Nick Scheele claims.

Mr Scheele, quoting statistics from the influential US JD Power consumer satisfaction index surveys, said the XK8 is the first all-new Jaguar sports car for 20 years. Jaguar expects the North American market to absorb 60 per cent of XK8 output, with 12,000 cars planned in the first year.

John Griffiths

THIS WEEK

A town of tennis, not testosterone

DATELINE

Washington: good, well-heeled people are now depicted as sex-crazed solely because of their political connections, writes Jurek Martin

My next door neighbour, a Democrat, is a political consultant. So, in his way, is the Republican at the top of the block, though he is having problems getting through to Bob Dole. One of Bill Clinton's top strategists has a house 200 yards away. Just round the corner lives an international civil servant who used to make a nice income dispensing political edvice to foreign candidates.

My block also contains three lawyers, two lobbyists, two journalists, two diplomats, including an ambassador, two independent businessmen and a very senior accountant, all plugged into the capital's main industry. My block sounds disgustingly well-heeled – maybe it is – but it is also a microcosm of Washington. When we talk, the subject is more likely to be politics than the price of eggs or even the Redskins football team.

But my neighbours are otherwise normal. They have children, work hard, run foreign cars and four-wheel-drives, play tennis, drink chardonnay and smoke cigars. We look out for each other and have collectively hired a patrol guard to keep us safer at night.

The point of this little encomium is that my neighbours, their political connections notwithstanding, really are good ordinary people. Yet the impression reasonably gleaned of Washington anywhere outside the city's Beltway is of a den of iniquity, influence peddling and double dealing. Now we have all been tarred with a far worse brush: we are sex-crazed.

It is, naturally, the fault of Dickie Morris. For the benefit of the female US astronaut who has been circling the earth in a Russian spaceship for most of this year, he is the president's political consultant who was forced to quit the campaign for having told a lady of the night deep White House secrets – including shockers like the content of Al Gore's acceptance speech – while sucking her toes, or possibly vice versa.

She, equally naturally, told all to a tabloid and he, never slow on the uptake, flogged his story to a New York publisher for sums far greater than hers. Most of Washington thinks he is a sleazebag, apart from Republicans who may not dissent but are eager for any dirt Morris can dish on the Clintons, preferably before election day.

Morris actually lives in Connecticut, where extra-marital sex is doubtless a stete industry. Nevertheless, be conductad his affair at the sedate Jefferson Hotel, just a handful of blocks from the White House itself. This is known as guilt by association.

In fact, the first family's residence has known seamy moments. A cheerful new paperback – called *Sex Lives of the US Presidents* and published (where else?) in Britain – has predictable fun with JFK, LBJ and FDR, all now known to have wandered, as well as the less easily proved allegations about the present occupant.

But it also recalls that Grover Cleveland acknowledged an illegitimate child while president, that Teddy Roosevelt had e condom (Rough Rider) named after him and that Martin Van Buren, though a widower, was considered the great roué of his tima (which may explain why there are so few streets named after him).

There may also be something in the fact that merely being an election campaign consultant serves as a powerful aphrodisiac. Four years ago, James Carville, from the Clinton camp, and Mary Matalin, who worked for George Bush, conducted a bigh-profile affair, though such relationships do not normally cross party lines. They have now married, written a book and are still good for political one-line quotes.

Joe Klein, the no longer Anonymous author of *Primary Colors*, found sex in Jack Stanton's (read Clinton's) staff, though much of it was portrayed, accurately enough, as more the product of emotional exhaustion than outright romance or, heaven forbid, lust.

That pretty much conforms to the realities of contemporary Washington. There have been enough celebrated cases of political careers derailed by sex – Gary Hart, Wilbur Mills and Bob Packwood are representative examples – to suggest a contrary conclusion, as might, in his not-so-younger days, the notoriety enjoyed by the unsinkable Ted Kennedy.

But most of this town seems more driven by paperwork than testosterone. Single women, and increasingly men, routinely complain of the lack of available potential partners. The singles bars of Georgetown and Adams Morgan are often more populated by the military out for a weekend's fun from nearby bases, or the peripatetic Eurotrash crowd, than unattached deputy assistant secretaries of commerce or housing looking for relaxation or romance – who are just as likely still to ba in their offices.

Perhaps this is wby Dickie Morris, who has also confessed to fathering a love child in Texas, decided he had to pay for his sex in Washington. At least he does not appear to have charged that part of his bill to the Clinton campaign.

Relationships, including inter- and intra-sex, may flourish more at office softball games or on public tennis courts, of which my neighbourhood has more than a few. Not, of course, that my very political immediate neighbours would ever dream of thinking of anything other than their top-spun backhands.

The Monday Profile: David Sullivan, Sunday Sport

In search of sex appeal

Just when you thought Britain was safe from headlines sucb as "World War Two Bomber Found on The Moon" and "My Sex With Space Being", David Sullivan is planning a revival campaign for bis flagging tabloid, Sunday Sport.

As the specialist newspaper marked its 10th anniversary yesterday with a front page featuring tbe "UK's Number One Model" and a nipple count for the issue of 127, the multi-millionaire publisber of soft pornograpby and joint owner of Birmingham City football club promised to bring back Sunday Sport's glory days.

"Circulation is not good, but we are on the way back now. Wa are going to market the Sport name massively, with T-shirts, cards, posters. We're going to bring more hard news into the paper. I believe the future of publishing is in niche marketing," says Sullivan, who has published 30,000 copies of a copiously illustrated book, *10 years of Sunday Sport*, to mark the anniversary.

Sullivan owns 50 per cent of the Sport with his partners David and Ralph Gold, who hold 25 per cent each. He began his husiness career at the age of 11, buying and selling football programmes. In his time he has owned a range of sex shops and soft pornography magazines, and still publishes *Parade*, the men's magazine. He bought first division Birmingham in 1993 for £700,000 and gave it an immediate injection of £700,000. Although accumulated losses at the club are £8m so far, Sullivan says the club's ground was recently valued at £10m-£12m.

The Sport now publishes every day except Saturday. Since its best days, when the Sunday edition achieved a circulation of 660,000, the slide has heen remorseless. Sales of the Sunday title averaged 260,650 in the six months to July, down from 306,467 last year.

But despite the slide the paper is still profitable. Sullivan – who also breeds race horses, loves short-term gambles on the stock market and has e large property portfolio – estimates the profit this year will be £6m. He is hoping for £9m next year and £20m a year within three years.

However, Sunday Sport, which retails at 55p, has little conventional edvertising. It achieves much of its revenue from advertisements for pornography, sex aids and premium-rate sex chat lines.

The process of revival began yesterday with the printing of an extra 200,000 copies, and Sullivan, who is responsible for a publication that many would not regard as a newspaper at all, says he will be surprised if circulation is not soon back up to 400,000. "We have all the ingredients of the old seaside postcard upgraded to 1996 – the fat ladies, the vulgar humour, the outrageous, the crude. That is what the Sport is all about," says 47-year old Sullivan, who graduated in economics from London University's Queen Mary College.

He was talking in the enormous office of his £7m Neo-Georgian mansion, Birch Hall in Essex, dressed in casual clothes and Birmingham City carpet slippers. Sullivan runs all his business activities from the home that features a full-size electronic bowling alley and huge indoor swimming pool.

"Sometimes I don't go out for three or four days," says Sullivan, who surrounds himself with bronze sculptures of race horses and other racing memorabilia. He believes his property empire – which ranges from warehouses at Royston to an office block in Edinburgh – is worth about £100m. But it is tha Sport and Birmingham City that give him most pleasure. "I read the Sport every day and eagerly look forward to it. It pops through my letter box with The Sun. That's why I'm good at doing it. I am a tabloid newspaper buyer," he says.

Apart from improving the marketing of the Sport, Sullivan is always looking for that special person or event that will capture the imagination of the Sport's readers – almost exclusively men aged under 30. The biggest draw so far has been Gert Bucket, the 69-stone American women who came to the UK to take off most of her clothes for Sport readers.

Last year's hig draw was the woman who wanted to establish a record by making love to 300 men in 24 hours. Neturally, numerous Sport readers wrote in to participate.

Sullivan would like one day to float the Sport, but his past may present a serious barrier. "I have come out of the sex industry so I am never going to be an acceptable figure to the City, although my businesses have always made money," says Sullivan.

Another ambition – hut one unlikely to be realised – is to be allowed to run Express Newspapers for a year. "I would love the challenge of reversing its fortunes," he says. He also has another, more personal, hope. After a lifetime surrounded by sex, Sullivan would like to have children within the next few years. "Whether I'm up to it at my age I just don't know," he says sadly.

Raymond Snoddy

FT GUIDE TO

Nazi gold

Swiss banks are being accused of holding on to tons of ill-gotten gold deposited with them by the Nazis. How much more are the banks hiding?

Private bankers estimate that more than $2,000bn is held by wealthy individuals in offshore bank accounts and other financial investments outside their home country. How much of that is legitimate is anyone's guess.

You mean some offshore bank accounts are legitimate?

Sure. Many customers have perfectly good reasons for holding their money outside their bome country – expatriate businesspeople, for instance. Since tax rates around the world have generally come down from the punitive levels of the 1970s, most now even declare their income to the tax inspector.

But not all . . .

Police and finance ministry officials estimate that between $300bn and $1,000bn which has its origins in crime is laundered every year, though numbers in this area are pretty much a matter of guesswork. Much of it goes through offshore banking havens.

Is Switzerland the biggest haven?

By no means. George Moscarino, a fraud specialist with the US law firm Jones Day Reavis & Pogue, estimates that money launderers use 125 countries. Police say they can hardly be expected not to raise their eyebrows at countries like the Cayman Islands, with 33,000 inhabitants and $460bn in bank deposits. Even hankers in rival centres admit Swiss controls are generally tight. Swiss private bankers live on their reputation and therefore have to be choosy ebout their clients.

But I thought Swiss bank secrecy was legendary?

Business confidentiality is ona of tha basics of banking anywhere in the world, hut the Swiss banks have certainly made an art out of secrecy. They have traditionally argued that e banker's relationship with his customer is privileged in the same way as a doctor's or lawyer's. Back in the 18th century, Geneva bankers used to cross the border to post their letters to clients in France to avoid alerting the revolutionary government. They still sometimes meet customers in airport lounges.

Is that all?

In 1934, Switzerland enshrined the principle of bank secrecy in law. Ironically, given the present row about Nazi gold, one of the main purposes of the law was to protect Jews who had shipped their money out of Germany – an offence punisheble by death. Many other countries, including the UK and US, also have bank secrecy laws, though few will send anyone to jail for making unauthorised disclosures.

How safe are Swiss bank eccounts from prying eyes?

Switzerland, in common with most other countries, now co-operates with criminal investigations from overseas. And banks are explicitly exempted from normal bank secrecy rules if they pass on suspicions of money laundering to prosecutors. In fact, some bankers say Switzerland has been losing shady customers ever since the Philippine government managed to win back some of the millions President Ferdinand Marcos had stashed in the country.

Sounds good in theory. What's the catch?

Foreign governments' main complaint is that Switzerland doesn't recognise tax evasion as a criminal offence, so won't co-operate on tax investigations. Finance ministry officials in some countries also want Swiss bankers to be required, rather than just permitted, to report their suspicions of money laundering.

What about numbered accounts?

The Swiss numbered eccount is partly mythical. Like bank accounts anywhere else in the world, Swiss accounts have numbers; and as in most other countries, Swiss bankers have to know the name of the customer. But the name is usually known only to senior officers. Junior employees handle the account by number without seeing the name.

Where can I get a real numbered account, then?

Austria still has anonymous savings accounts, much to the fury of the European Union, even though they are limited to Sch200,000 (£12,214). Turkey also bas anonymous accounts. International sleuths also dislike Liechtenstein, where banks can open accounts for e holding company with e lawyer or fiduciary as front man, without knowing who is the ultimate customer.

Is anyone doing anything about this?

The 1989 economic summit set up a group called tha Financial Action Task Force, which now has 28 members. It acts as e sort of support group, with a set of 40 recommendations on the kind of money laundering laws members should put in place. As a minimum, the task force recommends that laundering the proceeds of drug trafficking should be made a criminal offence.

Does the task force have any teeth?

Its condemnation earlier this year was enough to persuade the Seychelles to back off at least partly from e law intended to encourage inward investment, which everyone else saw as an open invitation to money launderers. And the Offshore Group of of Banking Supervisors, with members such as the Caymans, Bermuda and Jersey, has committed itself to implementing the task force's recommendations.

So all the offshore havens are closing down?

Dream on. Banking centres recognise that it is bad for business to be labelled as "dirty", but they also know that secrecy is a great marketing tool. Even the Rocky Mountain state of Montana has been thinking of launching numbered accounts, though tbe US federal government may bave something to say about that.

Robert Chote · Economics Notebook

Stable prices a recession away

The consequences of pushing inflation lower are poorly understood

It has been argued that the US is only one recession away from achieving price stability. But with opinion polls showing that for 10 years now very few US voters have thought that inflation is a serious problem, it seems unlikely that many people would wish to pay that price.

With the annual rate of price increases now running at below 3 per cent in 18 of the 27 member countries of the Organisation for Economic Co-operation and Development, the costs and benefits of travelling the extra mile to price stability are now being debated by policymakers across the industrialised world.

What would be the benefits of pushing inflation lower? In theory it should help make the economy work more efficiently. When the average level of prices is stable, this makes it easier for individuals and businesses to detect when the prices of particular goods, services and production inputs change relative to each other. The clearer these price signals are in a market economy, the more likely it is that producers will produce what consumers want to consume.

A world in which companies are confident of interpreting price signals correctly is likely to be one in which they are encouraged to maintain employment at high levels and to invest in capital equipment, innovation and product development. It should therefore be one in which economic growth is maximised.

Although numerous studies have confirmed that inflation impedes growth when it is high, rapid or unexpected, there is little evidence that cutting inflation from the levels seen at present in industrialised countries will improve long-term growth prospects. Michael Sarel at the International Monetary Fund calculates that economic growth rates are maximised at an inflation rate of about 8 per cent.

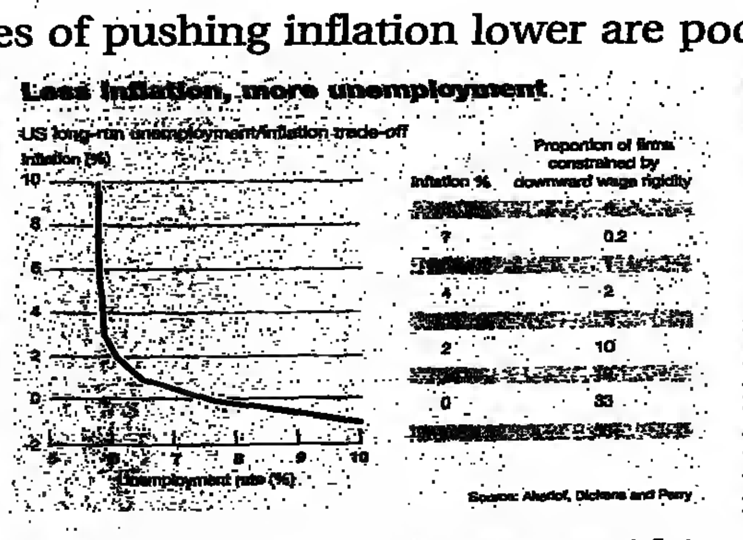
Understandably, these studies are not popular with central banks. They argue that countries *should* pursue price stability, although statistical problems mean that may equal measured inflation of about 2 per cent.

The central banks have found an ally in Martin Feldstein, president of the National Bureau for Economic Research. He has calculated that there are big benefits to be gained from moving to price stability in the US, because it would reduce the extent to which the tax system discourages saving and overpromotes investment in housing.

Feldstein calculates that cutting inflation by 2 percentage points – say from 3 to 1 per cent – would raise the level of national output permanently by 1 percentage point. He argues that the cost of reducing inflation by this amount, by raising interest rates and squeezing economic activity, would be a one-off loss of 5 per cent of national output – which could therefore be recouped in five years.

Given the duration of the electoral cycle in the US and most other industrial countries, it is not clear that politicians operate on a sufficiently long time-scale to accept that trade-off.

But there is a more fundamental problem. Feldstein implicitly assumes that the economy will return to its original trend growth path after bearing the one-off output loss. However, part of this output loss may become permanent because of reduced investment and erosion of capital stock, especially if the economy were to be squeezed abruptly. That would eat into the output gain from lower inflation.



Source: Akerlof, Dickens and Perry

Another assault on the case for price stability has been launched by George Akerlof, William Dickens and George Perry, in a Brookings Institution paper which was the talk of the Kansas City Federal Reserve symposium in Jackson Hole, Wyoming, last month. They dispute the central theoretical tenet on which orthodox monetary policy has been based in recent years: that there is a unique "natural" rate of unemployment at which inflation is stable, and that at other rates of unemployment inflation will fall or rise without limit.

Akerlof *et al* argue instead that at low rates of inflation there is probably a long-run trade-off between inflation and unemployment like that shown in the graphic. They argue, for example, that reducing US inflation to zero would permanently raise unemployment from its current natural rate of about 5.8 per cent to about 7.6 per cent.

"Maintenance of zero inflation measurably increases the sustainable unemployment rate and correspondingly reduces the level of output," they say.

The rationale that Akerlof *et al* rely upon is the familiar idea that employers find it difficult to cut wages in cash terms, because it is seen as unfair and damaging to morale. The cuts in real wages which the efficient allocation of resources occasionally requires can therefore be achieved more easily when inflation is positive. For example, it is easier to raise wages by 3 per cent when inflation is 4 per cent than to cut wages by 1 per cent when inflation is zero.

In their simulation exercise, Akerlof *et al* conclude that with inflation at 3 per cent, only one business in 20 would find itself unable to achieve a necessary real wage adjustment because it could not cut wages in cash terms. At zero inflation this proportion would rise to one-in-three. These businesses would in effect face cost increases which they would try to pass on to their customers, putting upward pressure on unemployment.

The advocates of price stability at Jackson Hole argued that if people got used to zero inflation, these concerns would eventually disappear. Maybe so, but judging by the sluggishness with which people's expectations of inflation have responded to its recent decline, that could take a generation. And, as the output costs of reducing inflation arise when actual inflation is lower than expected, it may prove enormously costly to go through that transition.

Against this background, it is unlikely that many central banks will enjoy the political support to embark on the transition to price stability deliberately. Ironically, history suggests that price stability is perhaps most likely to come about if inflation is first allowed to get "out of control" again, thereby prompting a misjudged monetary policy overkill which might ratchet it down another notch.

MANAGEMENT

Managers face a difficult task when differentiating between mere eccentricity and stressed-out behaviour in the workplace, reports **Richard Donkin**

A bit of an odd fish

Stress in the workplace has become one of the greatest concerns of managers, according to a report published today by the Institute of Management*. Over a quarter of a million people take time off work every day because of work-related stress; the annual cost in sick pay, lost production and health service charges is reported to total £7bn.

The IM found that unreasonable deadlines, working excessive hours and at weekends, having to implement redundancies and dealing with bullying, intimidation and office politics are all taking their toll.

In recent days there have been suggestions that Peter Young, one of Morgan Grenfell Asset Management's top fund managers, had been suffering from stress. The company's German parent, Deutsche Bank, was forced to pump more than £180m into three funds as a result of Young's speculative investments.

As the extent of his activities became apparent, colleagues talked of what had been Young's increasingly eccentric behaviour – his designs for a rocket launcher and the development of a model to mimic the burrowing of termites. His wife told of him sitting in the dark with his children, with the lights off and the curtains closed, and his obsession with buying large quantities of food. Young was said to have returned from one shopping expedition with 30 jars of pickled gherkins.

The problem for managers is weeding out what might be termed the "gherkin factor" from the other types of eccentric behaviour that are so prevalent in society. How much eccentricity should be tolerated in companies? What type is healthy and productive and what forms of behaviour might indicate that an employee has become dangerously stressed?

The first step is to identify the true eccentric. David Weeks, a clinical neuropsychologist at Edinburgh Royal Infirmary, has co-authored a book on eccentrics after studying them for 10 years.** He says they do display identifiable traits that may be apparent in a job interview or on a CV.

Look at the candidate's hobbies and interests, says Weeks. While there may be nothing in the least odd about stamp collecting, a passion for certain types of stamps or a 20-year-search for some long-lost first-day cover may indicate a certain eccentricity.

A high degree of intellectual curiosity is common in eccentrics: they suddenly light up in a conversation and become visibly enthusiastic about a particular topic. They will often be academically gifted but job selectors should look for evidence of a chequered educational background. Chopping and changing courses is common, says Weeks. An eccentric student might suddenly ditch computer studies and switch to an arts subject, for example, only later to switch back to computers.

Eccentrics are not team players. They do not care very much what other people think of them and are not the sort of people who try to keep up with the Joneses.

Some mystical, spiritual, though not necessarily religious, bent may be displayed, and eccentrics tend to be optimistic about the future.

Once the eccentric has been identified, the next step is to decide whether or not they will be a welcome and productive addition to the company. Sometimes a near-obsessive interest may be of great benefit to the organisation. Weeks writes of a man called Alan Fairweather who has devoted his life to the potato. He studies it, knows just about every way to cook it and can expound on virtually every variety known to man. Fairweather has found the perfect job fit. He is a potato inspector for the Ministry of Agriculture, Fisheries and Food in Scotland.

But many employers would shy away from eccentrics. Jeff Grout, managing director of Robert Half and Accountemps, who reads thousands of CVs, mainly covering the accountancy industry, says: "What a lot of people are looking for in CVs is an ability to fit into a team environment. A lot of our client companies are looking for evidence of outside work activities operating on a social level – team sports, amateur dramatics."

Gill Carrick, a headhunter at GKR Neumann International, says: "The anarchic rebellious streak that some more creative people exhibit is not a bad thing to have in small doses in an organisation, but I'm not sure the word is eccentric – 'off the wall' is probably a good description."

Many prominent business leaders, including Richard Branson, Sir Terence Conran and Anita Roddick, are characterised by an unconventional or individualistic approach. There would be those who would consider Warren Buffett eccentric because he prefers to wear cheap suits, likes to eat hamburgers, drink cherry Coke and live in Omaha.

Some thought the approach of Jean-Marie Descarpentries, when chief executive of CarnaudMetalbox, somewhat off-beam, particularly when he led a group of 29 senior executives into the Jordanian desert for a brainstorming and bonding session.

Harold Geneen was known to be unconventional when he headed ITT. On visits to the European head office in Brussels, staff had to switch their watches to New York time, the only time that Geneen would acknowledge. European-based executives became accustomed to calls from Geneen late into the night. Mornings tended to be Geneen-free.

Rodney East, the former group managing director of Etam, did not have an office and lugged his files around in a shopping bag. He would also pick up rubbish in the street – a worthy, but unusual, practice.

The US has had its fair share of business eccentrics. James Gordon Bennett, the newspaper baron, used to enjoy pulling the tablecloths from the tables of fellow diners in restaurants and then pay for the damage he caused. The exclamation "Gordon Bennett!" is said to have originated from his behaviour.

The greatest problem for managements is determining what is simply eccentricity and what are symptoms of burn-out or stress from pressure of work. Craig Newnes, a clinical psychologist who runs a staff consulting service in Shropshire, identifies the following warning signs:

- a decline in quality of work;
- absenteeism or lateness;
- regular personal emergencies;
- psychosomatic illnesses such as headaches and stomach cramps;
- use of alcohol while at work;
- persistent failure to do simple things like paperwork;
- making destructive comments or acting in a withdrawn manner at meetings;
- consistently denigrating colleagues;
- active sabotage.

This list is not necessarily helpful when it comes to identifying manic behaviour, says Newnes. "In such cases an individual might behave in quite the opposite way. He or she might take on more work rather than less work. They might be sitting at the desk all day long and staying late," he says. Close colleagues will usually be the first to spot if something is wrong, he adds.

Cary Cooper, head of organisational psychology at University of Manchester's Institute of Management and Technology, agrees. "People should be aware of colleagues displaying any change of behaviour, such as increased aggression or withdrawal. Any manager who sees something out of the ordinary should refer the employee to the company's employee assistance programme if it has one installed. These programmes, which supply employee counselling services, can be effective at helping someone cope with their problem and persuading them to seek help," says Cooper.

The Institute of Management concurs. "Stress tolerance and the ability to work under pressure are often cited as prerequisites in job advertisements. It is now time for the business community to abandon the macho and heroic image of stress and encourage greater co-operation and support," concludes its study.

**Are Managers under Stress? Institute of Management 0171 497 0580. £25 to IM members, £50 to non-members.*

***Eccentrics by David Weeks and Jamie James, Weidenfeld & Nicholson. £17.99.*

Planner and dynamo: Peter Warrener and Danielle Stewart

PARTNERS

Warrener Stewart

Peter Warrener, 46, started his own accountancy firm in 1983. Five years later, Danielle Stewart, 34, joined him to form Warrener Stewart. They employ seven accountants and have an annual turnover of £600,000. Danielle was voted Young Accountant of the Year in 1994.

Danielle: "Peter is my mentor. He's the wise one, the old bull. Whereas I'm always reacting and getting frightfully excited about today, Peter thinks about tomorrow. He's the forward planner, the concept man, I'm the dynamo and the doer. I'm also the technical whizz of the two. He's more of a new business creator.

He says it's easier for him to say what a wonderful partner he has than for me to sell myself in that role. In many ways he's like my manager. Although he tells everyone I'm the superstar, Peter is the best all-round business accountant I've met. He's certainly more expensive per hour than I am. His forte is contract work, acquisitions and mergers. In many ways he's like a corporate lawyer. He's very Sagittarian in that he has an innate understanding of how people tick. If you combine that with his financial acumen, it makes him a powerful player in the boardroom. He's definitely got a flair for business.

In the early days we'd scream at each other, but time is so precious now we don't waste it arguing. In a personal relationship, a big row can make you question whether you want to go on together, yet there is something more permanent about a business relationship. Splitting up is never an option, so we resolve our differences and compromise. Sometimes I feel very grateful that he gave me a break. At other times, I think he was a jammy git for spotting me. I don't just have total respect for him, I like him enormously."

Peter: "I had it in my mind to make Danielle a partner long before she knew about it. I'd met her as a 19-year-old student and could see that she was bright. She started with a gift for financial accounting, which has turned into a talent for auditing. She has incredible enthusiasm for finding the right answer and never gives up until she's got there.

When she joined the firm she ran into a bit of prejudice, which had more to do with her age than the fact that she was a woman. The moment they realised how clever she was, the prejudice disappeared. You never have to tell Danielle anything twice.

She's certainly not your typical accountant. She represents a modern breed of accountants who, in time, will change the traditional stuffy image. She surprises a lot of people, not just by the way she looks but by her intellect. I've encouraged her involvement with the Institute of Chartered Accountants because her contribution to the profession, and the way it's heading, is valid.

Danielle will definitely be remembered for the way she thinks. So often people form partnerships for purely commercial reasons and it rarely works out. We've been lucky in that we have respect for each other. Without respect, no partnership can stand the test of time.

Even though I'm older, I find, increasingly, that people refer to me as Danielle Stewart's partner. I'm happy about that. She associates herself with quality and doing the right thing, which is the image we want for the firm."

Fiona Lafferty

Crumbs from the tables of power

Lucy Kellaway

ABB's is oval-shaped and made of cherry-wood. IRI's is mahogany and covered in calfskin. Nestlé's has got a glass centre.

I have become something of an authority on boardroom tables after being given an interesting little volume called *The Table of Power*. Created by Jacqueline Hassink, a Dutch artist, it is a photographic record of the boardrooms of the 40 largest companies in Europe. Or rather it is a record of 21 of these as the remaining 19 would not let her in, claiming it would be in breach of their security rules.

One might have expected the volume to be of interest only to those with a fetish about top-of-the-range office furniture. However page after page of photographs of rooms with enormous shiny tables and leather swivel chairs tell a story about corporate power and how directors see themselves.

While each of the rooms has its own style and colour scheme, the similarities are more remarkable than the differences. All the boardrooms are strikingly impersonal, but they all quietly assert their power. Most are at the top of the building, with panoramic views. Almost all have expensive custom-made tables and leather and chrome chairs. The rooms all waste plenty of space. Only Ciba Geigy has an ordinary table that it picked from a normal catalogue, and chairs covered in the same sort of fabric that I am sitting on now.

The rooms suggest that less may have changed in the boardroom in the last few years than we are led to believe. Boards have shrunk, and we are told they have become less hierarchical and less inclined to stand on ceremony. However the rooms, which range from the 1950s to the present day, show less marked changes. Admittedly the newer tables are slightly smaller and more likely to be oval or U-shaped (ICI favours this design so that everyone can see the slide shows). The chairs may be less far apart than before and the chairman may not have a specially reserved place. But otherwise the trappings of power are identical. The aura remains the same. This is where the masters of the universe sit – a message at odds with today's egalitarian, delayered company.

"Dear George, I had a great idea last night. Thought we might join forces and help Danka become the largest independent provider of office-imaging products in the world! . . . George, what do you think? Sincerely, Dan."

"Dear Dan, Let's make it happen! Sincerely, George."

And with those punchy, spontaneous letters, a deal was born between Kodak and Danka. We know about this correspondence between the two companies' CEOs because they went to the expense of reproducing both letters last week in full-page advertisements in the UK press.

They could have saved their money. Cynical British readers know that deals do not happen in this way – instead acquisitions are made by painful (and costly) hour upon hour of nit-picking by lawyers and corporate financiers. Neither do we need our corporate deals to be dolled up to resemble business blockbusters. We just want to know if the deal is a good one, and to be assured that the companies have done their due diligence.

The same day the newspapers carried their own version of the story: Kodak had been getting increasingly desperate to sell its copier business, and this deal leaves it with a book loss of $250m and part of the business still on its hands.

I have only *surfed* the Internet once, and on that occasion I nearly drowned in a sea of information of negligible interest to anyone. Since then I gather the level of garbage has risen still further.

Last week Huggies put out an urgent press release to tell the world that nappies are now on the Internet. On the Huggies site you can get all your questions about nappies answered within 72 hours! It strikes me that anyone practical enough to be able to get onto the Internet can also work out how to change a nappy; if not, they will not be able to wait 72 hours in order to find out. The site also offers entertainment: if you click on the baby's nose you can read a nursery rhyme. So keen are Huggies to take advantage of this brand new medium with its low marginal costs they are surely missing something: it is the nappy *users* who generally like nursery rhymes, and most of them are a touch too young to surf. And as for the poor, harassed mothers, if they are clicking anything it is their tongues as they drag round the supermarket wishing that there were not quite so many different kinds of nappies to choose from.

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COMPANIES & MARKETS

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BAe will not lift Airbus stake

By Michael Skapinker, Aerospace Correspondent

British Aerospace will not press for an increase in its 20 per cent stake in Airbus Industrie even though its assete could prove to be worth relatively more than those of its European partners.

Instead, the UK company will press for other ways to safeguard its interests in Airbus, which announced plans to become a limited company earlier this year, abandoning its status as a *Groupement d'Intérêt Economique (GIE)*, a non-profit making entity under French law.

As a GIE, profits or losses accrue to Airbus'e partners rather than to the consortium itself. Industry observers sey that BAe has accepted that any increase in its Airbus stake would be politically unacceptable in Germany and, particularly, in France.

Among the alternatives to be explored include the poseibility that BAe might receive relatively higher payments for the work it does for Airbus. Airbus has said the process of conversion into e company will take three years and its executives are drawing np pro forma accounts.

One of the most important questions is whether the new company should take over the Airbus manufacturing facilities of its owners: Aérospatiale of France and Daimler-Benz Aerospace (Dasa) of German which each own 37.9 per cent; BAe; and Casa of Spain which owns 4.2 per cent.

Aérospatiale executives argue that Airbus should not take over the manufacturing facilities. Instead, it should design aircraft and eward contracts to the lowest-cost manufacturere, whether they are Airbus shareholders or not.

This would allow the factories to be left in the hands of their existing owners and avoid changes in the four companies' shareholdings.

By contrast, if Airbus were to take over the manufacturing facilities these would need to be valued. Some Airbus executives believe that those companies with more valuable facilities would have to be compensated by an increase in their shareholding.

Although none of the partners know the precise value of each other's Airbus facilities, many in the consortium assume BAe factories are worth more than those of Aérospatiale and Dasa because the UK company has undergone the most extensive restructuring.

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Hoechst may sell chemicals stake

By Daniel Green in London

Hoechst, Europe's biggest chemicals company, could sell a minority stake of its chemicals business as part of a broader reorganisation of the group, a senior board member said last week. Hoechst, which will turn itself into a "strategic holding company", intends to run its core chemicals division as a separate business to increase its attractiveness to investors.

Earlier this year Hoechst said it intended to make a separate entity of Hoechst Marion Roussel (HMR), its pharmaceuticals business. The group's agriculture business, Agrevo, is already effectively autonomous being a joint venture with German rival Schering.

Hoechst has been under pressure from the financial community over its relatively low share price. Analysts point out that its shares trade on a lower price-to-sales ratio than most of its competitors in the chemicals and pharmaceuticals industries.

Mr Utz-Hellmuth Felcht, main board member, said Hoechst had "to respond to the demands of the capital markets".

Mr Felcht said the group still has to take a decision about which organisational model it will adopt, but intends to place its chemicals business on the same footing as its drugs and agriculture operations. It did not want to become "a chemicals company with some other interests", he said.

Hoechst intended to remain in majority control of all these businesses but independence might mean a separate listing for any of three companies – Hoechst has already said that it could seek a listing for HMR next year. But the group intends to remain in majority control of all these businesses.

Tbls suggests that any spin-off would be along the lines of the relationebip between Rhône-Ponlenc Rorer, tbe quoted US drugs company, and French chemicals company Rhône-Ponlenc, wbich owns most of its shares.

Japanese group may be about to shake up its film unit

Sony wishes upon a star to fulfil dream

If the face doesn't fit: (clockwise from top) Jim Carrey's 'The Cable Guy' attracted dire reviews; Demi Moore's 'Striptease' went largely unnoticed; while Sony is scouting for a replacement to Mark Canton, the man responsible for choosing the films that Sony releases

The plot of Sony's Adventures in Hollywood, a seven-year-long tragicomic extravaganza, took another twist at the weekend.

The main event was the rejection by Mr Arnold Rifkin, a top film talent broker, of the job in charge of the Japanese group's Columbia TriStar Motion Pictures. Despite being courted to replace Mr Mark Canton, ousted on Friday, Mr Rifkin elected to stay with the William Morris agency.

This unhappy saga may also take a new turn with a realignment of management at the top of Sony's US operations in New York.

The ending could be a public share offering in a restored Hollywood powerhouse, a partnership, or a slow retreat into the sunset for Mr Nobuyuki Idei, president of Sony group.

Mr Idei has shown no inclination to share control with a more experienced entertainment group or to quit film. With more than six years to run on his contract, he sees correcting the dislocated integration of the group's electronic hardware and showbusiness software as "my mission and challenge".

"What we need to do is introduce a modern management system to Hollywood," he said. "Now it is a star-driven operation. You need star, management, star producers, star directors: star everything." In such an environment, he added, there was nothing to break the operating costs spiral.

Cost escalation has been the hallmark of Sony's Hollywood tenure since day one with the $5bn package that bought Columbia Pictures from Coca-Cola and the services of an eccentric management duo, Mr Peter Guber and Mr Jon Peters.

Their era fizzled out in September 1994 with the departure of Mr Guber after a sequence of costly film flops. Sony attempted to draw a line under that phase a month later when, reporting a $510m quarterly operating loss, it admitted overpaying for the studio and announced a $2.7bn write-off.

Mr Michael Schulhof, president of the group's US operations and engineer of its successful purchase of CBS Recorde, went in December last year, and the sequence of flops and underperforming films continued.

Fearful of being associated with failure, leading lights such as Francis Ford Coppola, the director best known for *The Godfather* sequence, and actress Michelle Pfeiffer, have severed their links. Senior executives, including the marketing chief of Sony Pictures Entertainment, which covers movies and television, and the head of the TriStar studio have absconded or been pushed out.

Last weekend it was the turn of Mr Canton, the man responsible for choosing the 20-plus films released each year. Mr Canton's signing last year of a $20m contract for Jim Carrey to star in *The Cable Guy* restored Sony's reputation – established with its overpayment for Columbia – as a leading source of film industry inflation.

Released this summer to dire reviews, the film has so far made a modest profit, but its failure to top $100m in gross US revenues marked Sony out as the only big studio not to have at least one blockbuster to ease the pain of a tough season for all Hollywood. *Striptease*, Sony'a vaunted vehicle for Demi Moore (paid $12.5m) roused minimal audiences. *The Fan*, with a $50m-plus budget and starring "eure-fire" attractions Robert De Niro and Wesley Snipes, is labouring in the ratings.

Ranked by share of box office takings, Sony is sixth out of seven leading studios this year. Only the lame duck, MGM which has released just 16 films compared with Columbia TriStar's 25, has fared worse.

In an industry usually renowned for its short memory, one or two big hits could restore the spring to Sony's step and help it draw back quality film-making talent, but Mr Idei is looking for a more reliable and longer-lasting solution.

The plan by Mr Alan Levine, SPE president, to bring in Mr Rifkin would have gone part of the way to meeting Mr Idei's goals. Despite Mr Idei's apparent aversion to the "star" mentality, close links with celebrities are considered essential for a studio's prosperity.

While movies bursting with speciel affects have tended to do well at the box office, the star vehicle is still considered the most reliable route to profits. Walt Disney, for example, last year filled its president's office with Mr Michael Ovitz, founder of the Creative Artists Agency, and regarded as the most powerful man in Hollywood. Mr Ron Meyer, his colleague, took a similar job at MCA.

But massaging talent is only one of the skills Sony needs: bridge-building is also in demand.

SPE's spending habits and salary structure, extravagant even by Hollywood standards, are out of line with the norm at Sony Corp's New York headquarters and in its consumer electronics and music divisions which make the money to pay the movie bills.

From the start of its Hollywood adventure Sony's softly-softly attitude has reflected its awareness of the gap between Japanese and US corporate styles. Now Mr Idei appears to be bracing himself to come to grips with the abyss between the business cultures of New York and Los Angeles.

Mr Canton's replacement should be one step, but more depends on finding a bridge-builder to fill the vacancy left by the departed Mr Schulhof in the Sony Corp president's office.

Christopher Parkes

Software rivals face anniversary of first salvo

By Louise Kehoe and Tom Foremski in San Francisco and Paul Taylor in London

Two of the biggest names in software are today poised to clash again over the future of personal computing.

Organisers of an industry forum in Paris are billing the confrontation between Microsoft's Mr Bill Gates and Oracle's Mr Larry Ellison as the "battle of the billionaires".

It is one year since Mr Ellison, chairman and chief executive of Oracle, declared that "the personal computer is a ridiculous device", as he began his campaign to promote simpler, lower-cost "Network Computers" (NCs), which be predicted would soon outsell personal computers (PCs).

At this year's European IT Forum, organised by the market research group International Data Corp, Mr Ellison is expected to demonstrate early production models of the NC and describa trials at several telephone companies and banks. He expects these companies to offer free NCs to customers who sign up for Internet services.

He is likely to have a few choice words for rival Microsoft. Lately, Mr Ellison has been charging that Microsoft le moving in entirely the "wrong direction" with its increasingly eophisticated PC software: "Microsoft is making the PC more complex. We're trying to go in the totally opposite direction," he said last week.

Mr Gates, chairman and chief executive of Microsoft, who has reeponded scathingly to Mr Ellison, is also scheduled to speak at the forum today. He can be expected to present a broader view of software for the Internet and corporate networks, wbile continuing to defend the PC.

Mr Gatee will perhaps point out that Mr Ellison has yet to identify a single customer for his NC and most of the manufacturers that have endorsed the NC have yet to deliver products.

To date only three large computer companies have delivered NCs: IBM, Wyse Technology and Boundless (formerly Sun River Systems). All are aimiog their products at tbe corporate market.

Ellison: 'opposite direction'

These companies view the NC as a replacement for "dumb terminals", the computer terminals typically used to access mainframe computer systems. There are more than 35m such terminals in use worldwide, according to IBM. They lack the easy-to-use "point and click" interface of today's PCs and have limited functionality.

The NC offers the modern graphical interface of a PC and is essentially a "closed box". Applications programs and data are stored on central servers, making them easier and less expensive to control.

Mr Ellison's vision is of "ubiquitous" NCs in bomes, schools, airports and hotels. "NCs will be everywhere," he has predicted. "NC sales will reach 100m units by the year 2000." To achieve such figures, the NC will have to become a popular consumer product but its mass market appeal has yet to be proven.

It will be another six to 12 months before the NC takes off as a consumer product, says Mr Jerry Baker, president of Network Computer, a subsidiary of Oracle created to develop software for NCs.

Acorn, the UK-based computer and multimedia group controlled by Olivetti of Italy, has already announced a NC dubbed tbe NetStation. Designed to plug into a television and provide access to the internet, the book-sized NetStation is due to go on sale on October 11 in the US and Europe.

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INSIDE

Brady bonds poised to make further advances

By Richard Lapper and Samer Iskander in London

Brady bonds are poised to make further gains after prices rose to an all-time high last week. A rise in US Treasury bond prices helped Bradys – issued in exchange for distressed commercial debt since 1990 – on Friday, but the strong performance of the $140bn-plus market also reflects an improvement in the creditworthiness of many Latin American and eastarn European economies.

"The market has been driven relentlessly upwards ae investors take a more favourable view about the risks in emerging markets," said Mr Peter West, economic adviser at West Merchant Bank in London. "This has got momentum behind it. There is obviously a limit higher in some countries."

West Merchant's price index for the market surged on Friday past its record to 163.18 by the London close, and has risen by 4.8 per cent since the end of August.

The recent rise in oil prices and an improvement in the economic prospects of many countries have helped increase investor confidence in emerging markets.

The yields on Brady bonds have fallen sharply, with average spreads over US bonds falling by nearly three quarters of a percentage point in just two weeks. Spreads on Brady bonds issued by Venezuela, which recently agreed an IMF supported economic adjustment programme, have fallen by nearly 1¼ percentage points – over the same period.

Russia has also benefited from the trend, with its dollar bonds on tha secondary market rising by nearly 10 per cent so far this month. News on Friday that the governmsnt was close to an agreement with its commercial bank creditors grouped in the so-callsd London Club, buoyed investor confidence.

Analysts argue that the strength of Bradys reflects a shift in investor attitudes, with increasing numbers of US institutions prepared to commit long-term money to the market. Ms Ingrid Iversen, debt strategist at UBS, said: "Non-dedicated money is coming into the market and as the market becomes less and less junk-like mutual funds and insurance companies are big buyers."

Brady bond prices reached their previous high in January 1994, before rises in US interest rates triggerad a sell-off.

Accountancy firms in photo-finish

By Jim Kelly, Accountancy Correspondent

Coopers & Lybrand, the accountancy firm, announced gross fee income for 1995-96 of £701m, up 6 per cent on the previous year, setting the stage for a photo-finish at the top of the UK fee income table with Andersen.

Coopers, which currently holds the leadership of the Big Six firms by revenue, performed well, but it is understood that Andersen – which includes both Arthur Andersen and Andersen Consulting – is heading for double-digit growth.

The 1995-96 year will be chaotic for financial reporting among the Big Six because of fundamental changes: co-ordinated publication of results has been abandoned, and Andersen's results are due to be announced in mid-October.

The last comparable results, for 1994-95, were based on net earnings. Coopers came top with £575m, followed by Andersen on £539.5m. Coopers' net earnings in 1995-96 grew 8 per cent to £619m. If Andersen achieves just 10 per cent, it will rise to £593m.

KPMG, the only other Big Six firm to report so far this year, recorded gross revenues of £588m for 1995, an increase of 6.8 per cent. It and some other Big Six firms are also understood to be running at double-digit growth this calendar year.

The traditional reporting season for the Big Six has been disrupted by KPMG's decision to incorporate its audit business, leading to the publication of plc-style results. Ernst & Young has promised to follow suit – even if it seeks off-shore registration as a limited liability partnership on Jersey.

Mr Peter Smith, Coopers chairman, said: "We are actively reviewing the position to determine whether incorporation or the establishment of a limited liability partnership would provide us with a more appropriate operating structure."

The Big Six are considering structural changes in an attempt to find some defence to rising litigation costs. Mr Smith said it would be "some time" before Coopers made a decision.

Fees from traditional assurance services – such as audit – gained 7 per cent to £239m, while business recovery and insolvency work dropped from £65m to £58m, in line with the recovery. Corporate finance rose 12 per cent to £72m, and management consulting 10 per cent to £157m. Taxation and human resource advice rose by a modest 8 per cent.

US interest in Lonrho Princess hotel chain

By Ross Tieman

Lonrho is understood to have received about 15 serious approaches for all or part of its Princess-Metropole hotel business, after suspending plans for a flotation.

Interest in the 10-strong chain of Princess resort hotels in the Caribbean, the US and Mexico originates largely from North America.

Potential buyers for the five Metropole conference hotels in Britain is concentrated among UK hoteliers, but interest has also been expressed by buyers from south-east Asia and continental Europe.

Advisers to Lonrho's board are increasingly confident that a trade sale, possibly involving separate sales of Princess and Metropole, will raise more than the planned flotation.

Plans to issue a pathfinder prospectus were halted on September 6 amid signs that the flotation was unlikely to raise the £700m plus Lonrho had been hoping to achieve.

Disposal of the hotels is the first step in a three-way break up Lonrho planned by Mr Dieter Bock, the company's chief executive. He wants the proceeds to help repay debts of £700m-£800. Freed from interest payments, the mining and African trading group would return to positive cash flow.

Mr Bock must decide by September 30 whether to restart the flotation process. For that reason, the company will seek to close a deal with prospective trade buyers within a fortnight.

Analysts expect the Princess Chain to fetch at least £350m. ITT Sheraton, Hilton Hotels Corporation, Marriott International and Renaissance hotels, the Ohio-based chain, have all been mentioned as possible buyers.

Metropole is expected to fetch between £300m-£350m. Prospective bidders include Stakis, Jarvis Hotels and Millennium Copthorne.

Eurotunnel talks face obstacles

By Geoff Dyer

Eurotunnel's refinancing talks with its banks face several key obstacles in spite of its claim last week to be "eight hours of negotiations" away from a solution.

Although the "architecture" of the package, as Sir Alastair Morton, co-chairman, calls it, has been clear for several months, the all-important prices of the constituent parts have still to be established.

The deal is expected to involve an immediate debt for equity swap, and the refinancing of part of the group's £8.8bn debt through a convertible bond issue.

However, negotiators say no single issue is holding up the talks since each part of the package is inter-changeable.

Analysts estimate that the group, which is accumulating interest charges at about £650m a year, needs to rednce its debt burden by between £3bn and £5bn.

Although the exact proportion of the initial debt-for-equity swap is yet to be fixed, it will almost certainly be just below 50 per cent.

At Friday's closing price this would mean swapping ebout £1bn of debt, although this could rise up to £1.5bn if the company was successful at negotiating up the issue price for the shares, which have e current par value of around 165p.

The convertible bond, which is expected to be in the order of £2bn, and could involve two or more tranches of securities being issued, could lead to the banks eventually owning about 75 per cent of the shares.

The pricing of the convertibles is one of the thorniest of the issues surrounding the talks and depends in part on the maturities of the different tranches.

However, the company is believed to be pushing for a conversion price well above 265p, the level at which shares were issued in the 1994 rights issue.

Negotiators say it is increasingly unlikely that one of the tranches of bonds will be securitised against a part of the group's revenues, such as the income from the railways.

The convertible bonds are likely to be redeemable by the company if its revenues reach agreed levels over the next few years, so one of the crucial elements of the package for shareholders will be how strict the revenue targets are.

Bankers agree with Sir Alastair that agreement is near.

At the end of September, the mandate of the two court-appointed mediators, which has already been extended twice, runs out.

Restructuring at CGS

By Paul Taylor

Cap Gemini Sogeti, the European computer software and services group, will today announce a significant reorganisation.

This is aimed at helping it compete more effectively with US-based rivals, Electronic Deta Systems and IBM.

The reorganisation is designed to transform the group from a series of geographic businesses into one based on trans-national operations built around industry segments.

Initially, four industry units will be established: telecommunications, insurance, pharmaceuticals and travel and tourism, which account for about 20 per cent of CGS's $4.2bn (£2.7bn) annual revenue.

The Paris-based group, which bas been assembled mainly through acquisitions, will also announce a re-branding of most of its operations, whicb employ 23,000, under tbe Gemini name. The one exception will be the Gemini consulting business, which employs about 2,000 and will continue to trade under its own name.

CGS is attempting to re-position itself and compete more directly with EDS and IBM, the industry leaders, whose computer servicee operations are about three times the size.

While CGS is probably the largest European computer systems integrator and computer services group, it is still a distant third behind the two US groups, both of which are growing at twice the market rate.

Calming investor nerves after MG

Wolfgang Münchau on anxieties in Germany

The financial scandal at Morgan Grenfell Asset Management (MGAM) has hit some raw nerves in the German investment industry, which last week embarked on a counter-offensive to reassure investors about the safety of their funds.

Financial advisers across the country reported back to their headquarters that private clients were extremely concerned about the breakdown of control procedures at MGAM, and wondered whether the same could happen in Germany.

So far there has been no sign of panic, no evidence of mass withdrawals or a flight into cash. But there is concern that the scandal may have reinforced lingering prejudices about the dangers of equity investments by a largely risk-averse German public.

After the affair became public, Deutsche Bank immediately wrote to the 18,000 German investors in the MG European Capital Growth Fund that the bank had neutralised the risk and the investments were safe.

The Berlin-based Federal Supervisory Office for the Credit Industry stepped in to ask 12 investment companies to prodnce inventories of their investments to see whether funds exceeded the legal limit of 10 per cent for unquoted paper. Since most funds generally do not come anywhere near the limit, the investigation was widely seen as an exercise in calming nerves.

Deutsche Investment Trust, the investment management arm of Dresdner Bank, also felt the need to reassure its investors. Mr Rolf Passow, head of DIT, said he was "concerned about the potential damage to the image for the entire investment sector and the ensuing loss in confidence", claiming DIT's own internal control procedures were rigorous "even though there exists no complete security against criminal energy".

DIT suggests that Mr Peter Young, the MGAM trader suspended after the discovery of large losses at three funds, probably could not have pulled off his tricks in Germany, because German-based investment companies do not give employees the same room for manoeuvre.

They rely more on team-work, "where the group members control each other and limit the scope of uncontrolled individual action", according to Mr Passow.

The comment is an indirect reflection of an increasingly critical attitude in Germany about the City of London and especially about profit-related incentive structures, which can result

FUND MANAGEMENT

in multi-million dollar salary packages.

Recent financial scandals, including the case of Mr Nick Leeson, have confronted the German public with a hitherto unknown phenomenon: the rogue trader or banker, driven by greed and willingness to take uncontrolled risks.

German investors, by contrast, are traditionally risk-averse. The same is true of the country's bankers. German banks generally do not offer their domestic staff the kind of profit-related bonuses which induce them to take greater risks.

It is against this background that DIT and others are not merely seeking to calm down nervous investors, but also to make the case for Germany as a safe haven in an otherwise dangerous world.

As Germany's second largest investment management group with almost 2m individual investors and DM48.5bn under management, DIT also counts among its clients employees on low incomes, who are saving to build up a small portfolio with the help of a federal scheme of tax credits.

For many Germans, equity saving is a relatively new development, given the public's traditional preference for federal government or other public-sector bonds. A scandal as part of whicb German investors would lose money would almost invariably bave e severe impact on confidence. This case is not in the same league.

Mr Passow said that Germany's regulatory environment was "probably the best in the world". Apart from the strict external controls, the funds also provided a series of internal controls.

The policy of DIT and other German investment companies is to have separate teams taking the decision to buy and trade.

DIT says it runs a separate department responsible for performance supervision, charged with daily monitoring of the type of investments, their performance and their compliance with strategic goals and legal requirements. A customary compliance officer supervises employees' private investment activities, and additional safeguards prevent fund managers buying stocks in an illiquid market.

Deutsche Gesellschaft für Wertpapiersparen, Deutsche Bank's own German-based investment management company, and the largest in Germany, also insisted publicly that its own control procedures were functioning and private investor funds were subject to particularly virulent control procedures.

Deutsche Bank's move to shield investors in the three MG funds from losses, and the fund companies' public reassurances, appear to have succeeded in limiting the overall damage for the time being. It is now up to Deutsche Bank to pursuade investors that the new control procedures it will install at MGAM are working.

هكذا من الاصل

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COMPANIES AND FINANCE

Vitro forced to sell loss-hit US glass unit

By Leslie Crawford in Mexico City

One of Mexico's boldest foreign corporate ventures has ended in failure, with Vitro, the world's third-largest glass manufacturer, announcing it had reached a non-binding letter of intent to sell its lossmaking US subsidiary, Anchor Glass.

The move prompted Anchor Glass to file for protection against creditors under Chapter 11 of the US bankruptcy code, a move designed to ensure its continued operation pending completion of the sale.

Anchor Glass said that Ball-Foster Glass, the second-biggest glassmaker in the US, owned by France's Saint-Gobain, had signed a non-binding letter of intent to acquire the assets of the company for $365m in cash, plus the assumption of certain liabilities.

Anchor Glass has debts of about $900m, according to Vitro's consolidated financial statements.

Vitro, which has withdrawn financial support for Anchor Glass, says it has not guaranteed any of Anchor's debt, so US creditors will not be able to make any claims on Vitro.

The US unit has arranged a $130m credit line from Foothill Capital Corp and Congress Financial Corp to meet its liquidity needs until completion of the sale.

Because the takeover will merge the second and third-largest glassmakers in the US, the operation may still be subject to regulatory approval. Under Chapter 11 rules, Anchor Glass must also seek court approval for the sale of assets.

Anchor Glass accounted for about one-third of Vitro's annual sales of $3bn, but operating losses over the past two years had forced Vitro to inject $140m to keep its US subsidiary afloat.

In 1989, when Vitro bought Anchor Glass for about $1bn, the move was heralded as a piece of Mexican corporate bravado.

"The image of a Mexican company buying a US rival was tremendously powerful," said Mr Shane McGuire, an analyst at Deutsche Morgan Grenfell.

"Then reality set in. The glass industry in the US declined faster than expected, and fierce competition compressed operating margins to no more than 2 or 3 per cent."

Last year, Anchor Glass incurred a $65.9m loss on sales of $956.6m.

Buffett starts work on Salomon escape tunnel

By Tracy Corrigan in New York

Warren Buffett: has lined up exchangeable note issue — AP

The relationship between investment bank Salomon and its board member and largest shareholder Mr Warren Buffett is set to change.

Last Thursday, Mr Buffett announced he would convert some of his preferred shares in Salomon Inc into common stock. Salomon sought to present the news as a vote of confidence in the investment; he declined the same opportunity a year ago, even though the stock was already at a small premium to the conversion price. But he also announced that he might divest part of his 18 per cent stake in the company by issuing exchangeable notes.

In fact, the decision to convert his 1996 tranche of 140,000 Salomon preferred shares into common stock is hardly surprising. Before the announcement, the stock closed at $45⅝ on Thursday, a 20 per cent premium to the $38 conversion price. Mr Buffet has simultaneously given himself an out, by filing a shelf registration for Berkshire Hathaway, his investment company, to issue $400m of notes exchangeable into common stock – an established technique for unloading unwanted investments.

Otherwise, the conversion of the preferred stock would leave him more heavily weighted in common stock, an inherently riskier investment than the preferred stock, which pays a fixed dividend of 9 per cent.

The new Berkshire notes, which would be exchangeable at a premium to the current share price, would potentially reduce Mr Buffett's stake to about 11 per cent. Mr Buffet also said he was looking at other ways of disposing of stock. But Mr Jim Hanbury, a Schroder Wertheim analyst, said the exchangeable notes were a clever way of disposing of part of his stake "without having to dump it on the market and depress the share price".

While Mr Buffett has not committed himself to such a divestment, Salomon's stronger performance this year – and the resulting rally in its share price – could be seen as a tempting opportunity to cut a problem investment.

Mr Buffett is expected to stay on the hoard and remain a substantial investor. But some analysts say the move could re-ignite speculation about Salomon's future. After a poor 1994, Salomon's last four sets of quarterly results have been strong.

Better still, it jumped from fifth place in 1995 to the number two spot in the underwriting league tables for US debt and equity in the first half of this year, according to Securities Data, which tracks primary offerings.

This is an important step in the firm's efforts to move away from its reliance on proprietary trading, which has historically held back its share price.

But analysts believe that its profits are still largely derived from proprietary trading, and that it could therefore prove more vulnerable than its peers to any market downturn.

NEWS DIGEST

Hyundai cuts sales forecast for year

Hyundai, South Korea's second-biggest conglomerate, has cut its sales forecast for 1996 from Won72,000bn to Won69,000bn ($84bn) in response to growing economic problems in Korea. The company, which recorded sales of Won60,000bn last year, said most of its businesses, which include cars, ships, electronics and construction, were performing worse than expected.

The revised forecast followed closely on the news that Hyundai had reshuffled the heads of its electronics and construction operations, and indicated that up to a third of the senior management would be replaced by younger executives in the next few months. This follows a "generation shift" in the top management of Hyundai at the beginning of the year, with the appointment of Mr Chung Mong-koo, son of the Hyundai founder, as the new group chairman.

Hyundai car and construction companies have been hurt by a slowdown in domestic economic growth, while its electronics and shipbuilding operations have suffered from increased competition from Japan and a fall in global prices. In spite of increased debt loads for Hyundai Engineering and Construction, its new president, Mr Lee Nae-heun, said the company would participate in a $10bn group project to build a new steel blast furnace facility which would compete against the state-owned Pohang Iron & Steel. *John Burton, Seoul*

Oracle doubles in first quarter

Oracle, the US computer software company, reported net profits more than doubled year-on-year for the first quarter to the end of August, from $54m last time to $113m. Revenues from its core database-management programs were up 41 per cent. Total revenues for the quarter rose 36 per cent from $772m last time to $1.05bn. The year-ago quarter included a $34m after-tax acquisition charge.

The California-based company said growth was "solid" worldwide, with the strongest increase in the Americas. International sales were adversely affected by currency translations, which limited growth in dollar areas. The results were in line with Wall Street analysts' expectations for high growth.

Later this month, Oracle is expected to launch one of the first network computers designed for use in the home. *Louise Kehoe, San Francisco*

MAN Roland to cut 700 jobs

MAN Roland, the loss-making printing unit of Germany's MAN, said it planned to shed about 14 per cent of its workforce in response to fierce competition and weak demand in the sheet-fed printing sector. About 700 jobs out of a total of 5,044 would be cut in the next two years. "We do not expect a sustainable recovery in prices and volumes over the short term. Further cost-cutting measures are therefore imperative," the company said.

However, MAN Roland said it hoped to avoid compulsory redundancies. The unit, which has been in the red for several years, narrowed its net loss from DM146m to about DM80m ($53m) in the year ended June 30 1996. Final figures for last year are due to be released on October 17. *Sarah Althaus, Frankfurt*

S Africa plans D-Mark bond

South Africa will this week launch the first D-Mark denominated bond since President Nelson Mandela took office. Deutsche Morgan Grenfell and Morgan Stanley will be the lead managers of the seven-year issue, which will have a volume of between DM400m and DM500m ($265m –$330m).

In the apartheid years, South Africa was a regular issuer of D-Mark denominated bonds. The South African central bank views the bond issue as a benchmark against which to set the conditions for future international bond issues. The issue is expected to trade at between 130 and 150 basis points above an equivalent German bund. *Wolfgang Münchau, Frankfurt*

Amoco starts E Europe push

Amoco, the US petroleum company, launched its drive into central and eastern Europe at the weekend with the opening of its first petrol station in Bulgaria, in the Black Sea port of Bourgas. The company plans a network of more than 250 outlets in the region, with more than $50m being invested in 50 petrol station/supermarket sites in Bulgaria by 2006. *Theodor Troev, Sofia*

Travelers buys landmark California hotel

By Christopher Parkes in Los Angeles

San Diego's Hotel del Coronado, backdrop to the film *Some Like it Hot*, and the resort where, legend says, Wallis Simpson met her future match in the Prince of Wales, has been sold to Travelers Group, the financial services conglomerate.

The sale, on undisclosed terms, followed the death in January of Larry Lawrence, who bought the hotel in 1963 and spent heavily on restoration before "the Del" – as aficionados know it – was listed as a historic monument in 1977.

The 690-room seafront hotel has been a southern California landmark for 108 years, and its distinctive wood-clad architecture in 30 acres of grounds has inspired creators including Walt Disney and the designers of popular "resort" hotels all over the world.

New York-based Travelers, which controls $54bn of investments, is best known for its interests in financial services, including ownership of the Smith Barney hrokeraga, although its portfolio includes some $5bn-worth of real estate, including a handful of hotels.

Mr Lawrence, who died in office as US ambassador to Switzerland, drew much of his mortgage financing from Primerica, as Travelers was formerly known. He made his fortuns building homes in Arizona, and made his name as a generous supporter of the Democratic party.

Although the successors of Hollywood stars such as Marilyn Monroe and Errol Flynn who helped make the hotel internationally famous now prefer more secluded spots to relax, it trades heavily on its history and is still a favourite among senior Washington politicians.

In a less glamorous – but more substantial – exchange announced at the weekend, Doubletree Corp of Phoenix agreed to pay about $1.2bn in cash and shares for 55 hotels owned by Red Lion.

The Red Lion chain, concentrated in the western states, is owned by a public-private partnership locluding state pension funds, one of its founders, and Kohlberg Kravis Roberts, the buy-out specialist. The partners will control more than 10 per cent of Doubletree, which will own 234 hotels on completion of the deal.

The revival of tourism in tha western US, with hotels enjoying their best occupancy rates this decade, has inspired several exchanges of individual and small groups of hotels in the past few months.

West Coast hotel revenues are up more than 5 per cent on average so far this year, while San Diego boasts a figure of 8 per cent, owing partly to the invasion this summer of the Republican party convention.

Novell revamps network products

By Louise Kehoe in San Francisco

Novell, the computer networking software daveloper, has launched new versions of its networking and "groupwars" prodncts geared to Internet standards, in an attempt to reinvigorate sales.

Industry analysts say the company, which once dominated the networking software market, has recently been damaged by competition from Microsoft and has failed to keep pace with the trend toward the use of Internet standards on corporate networks, or intranets.

Novell hopes to make a comeback with the introduction this week of "IntranetWare", a new version of its proprietary networking software, as well as an updated groupware prodnct, called GroupWiss 5, that anables workers to collaborate via a computer network.

The success of these products may be critical for Novell. Analysts at Forrester Research said in a recent report that the company's future had "never been more tenuous", and urged "drastic action".

Two weeks ago, Novell responded to these and other critics whan its board accepted the resignation of Mr Rohert Frankenherg, chairman and chief executive. He has been replaced temporarily by Mr John Young, a Novell board member and the former president and chief executive of Hewlett-Packard.

Mr Young said his tenure would end as soon as a new chief executive was found. In the meantime, he is pushing Novell to compete more aggressively and bring new products to market faster.

Australis doubles loss for full year

By Nikki Tait in Sydney

Australis Media, the financially-troubled pay-TV business, reported a loss of A$251.7m (US$200m) in the year to June, compared with a deficit of $122.1m in the previous 12 months. The figure inclndes abnormal charges of A$30.7m.

Bnt the Sydney-based company, which was the first to offer pay-TV services in Australia, said it had written indications from the majority of its existing US noteholders which would allow a new US$150m US debt offering to proceed.

Australis said the majority of noteholders also supported amendments to the existing US notes, and its proposed Optus Vision joint venture.

Financial statements assumed "the continuation and expansion of trading".

FINANCIAL TIMES

MARKETS

THIS WEEK

Global investor / Richard Waters

Lessons for US trade unions

"America needs a raise." So says Mr John Sweeney, the top trades unionist in the US, in the title of his latest book. It is a rallying cry to the down-sized, the insecure and the economically dispossessed, the supposed victims of 1990s US capitalism.

This is the year when American workers were meant to start exercising their power again. It dawned, remember, with widespread condemnation of AT & T's plan to sack 40,000: the anger and insecurity prompted by such large-scale corporate sackings had at last found their way into the political arena. That was followed by interest in chief executives' pay. Fear and greed make a potent mix.

Things, though, have not turned out the way they might. Companies have learned not to brag about sackings quite so brazenly. New jobs have been appearing at a rate of more than 200,000 a month. The insecurity is still there, but the story has fallen out of the political headlines.

That is not to say that Mr Sweeney's efforts to kindle a new sense of militancy among American workers will necessarily fail. But it is important to understand how trades unions are choosing to exercise their influence - and what effect it might have on future US labour costs.

One lesson is that the unions are using what power they have to protect members' jobs, not to win a bigger share of the profits cake. Only last week, 6,600 members of the Machinists Union called off a strike at McDonnell Douglas in St Louis. The aerospace and defence company promised bonuses in three of the next four years, including an immediate 4 per cent. The change in basic pay, though, was 2.5 per cent next year, followed by another 2 per cent in 2000.

That agreement echoes others seen across the country, says the Machinists Union. Pay levels for its 500,000 members are going up faster than the rate of inflation this year. But bonuses and other one-off payments make up a big part of that.

Labour costs are also becoming more flexible in many other industries.

The second lesson, on the other hand, is that the fight over job security will leave a greater degree of inflexibility in some manufacturers' cost structures than they would like. Unionised car workers cost about $40 an hour in pay and benefits, roughly twice the remuneration of a worker in a non-unionised parts plant.

With the industry's bargaining round coming to a head (the United Auto Workers' three-year labour agreement expired over the weekend), this issue will remain centre-stage. So far, the signs are that the manufacturers will extend some degree of job security to existing workers, but in return for concessions which will allow them to contract out more work in the future and bring in new workers on lower initial wages.

This is, to some degree, a temporary issue: many of the traditional unionised jobs in the auto and other metal-bending industries were created in the late 1950s and 1960s, and their holders will be retiring in increasing numbers in the coming years. The struggle is now shifting to a new generation of workers with no memories of the glory days of union power.

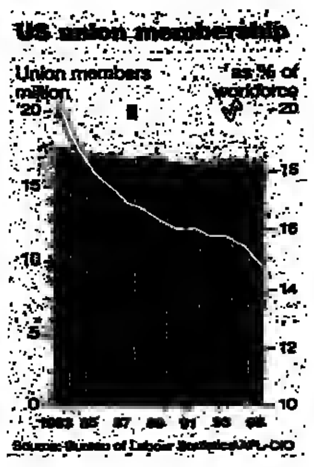
The third lesson is that the fight for higher wages will increasingly take place far from the traditional assembly line.

The number of union members climbed slowly until the mid-1970s, and has since slipped slightly. But with the rapid growth in the total labour force, the unions have seen a rapid erosion of their relevance: only about one in seven workers is currently a member of a trades union, compared to one in five in 1983.

This is what the zealous Mr Sweeney has set out to change; and, according to Mr Harley Shaiken, a labour professor at the University of California, he has already proved himself an adept organiser and morale-booster. The boss of the AFL-CIO, the umbrella union organisation, has set his sights on bringing immigrants, farm workers and other low-wage workers into the unions.

This is a part of the labour market that is experiencing some of the greatest pressures at the moment, and where wage rises have been most pronounced. Forget the signing bonuses paid to Wall Street's most coveted dealmakers: they are now being paid in fast-food restaurants in some parts of the country.

Wage inflation in the US economy overall remains a subdued, though constant, cause for concern in stock and bond markets. But those industries which traditionally have relied on cheap labour will feel the pressure the most.



Total return in local currency to 12/9/96

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.10	0.01	0.06	0.07	0.17	0.11
Month	0.45	0.04	0.28	0.33	0.75	0.48
Year	5.58	0.63	4.24	5.88	10.38	6.75
Bonds 3-5 year						
Week	0.56	0.19	0.44	0.56	0.88	0.34
Month	-0.45	1.15	0.86	1.26	1.56	0.84
Year	3.98	2.92	7.93	10.95	17.88	8.41
Bonds 7-10 year						
Week	0.79	0.68	0.74	0.71	1.26	0.50
Month	-1.35	1.93	0.83	0.96	2.04	0.44
Year	2.18	4.42	8.74	13.37	23.56	8.38
Equities						
Week	3.4	-0.1	1.6	3.1	1.9	1.2
Month	1.2	-1.1	1.2	4.4	-2.0	3.5
Year	18.9	7.1	13.4	16.3	-9.2	15.8

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Actuaries Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co. and Standard & Poor's.

Compiled By AFX News

Michelin set to continue its recent advances

The world's largest tyremaker is expected to report a further increase in earnings as it continues to recover from the losses of the early 1990s. Analysts forecast Michelin will report first-half net profits of FFr1.65bn-FFr1.8bn ($324m-$354m), up from FFr1.43bn a year earlier. *AFX, Paris*

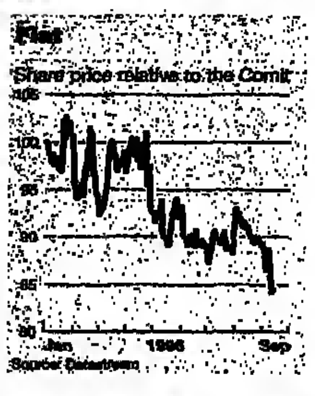
■ **Fiat:** The Italian carmaker is expected on Thursday to report interim pre-tax profit before exceptionals of between L1,100bn and L1,640bn ($728m-$1bn), compared with L2,000bn a year earlier. At the pre-tax level, analysts forecast profits of between L1,100bn and L1,565bn, compared with L2,153bn last year. They blame the weak car market worldwide, the stronger lira and competition. The Latin American markets which Fiat has developed are not performing as well as last year. Even though, Fiat is increasing its market share in Europe, it depends on its home market for 40 per cent of its sales but conditions in Italy have been particularly weak. *AFX, Milan*

■ **Dalgety:** The UK food group is expected to announce annual pre-tax profits of about £90m-£95m ($148m) today, compared with £127m last year. Analysts have downgraded expectations after the group was hit by the twin blow of BSE – which is expected to wipe £25m off profits from the knock-on effect on animal feed producers – and last year's £465m acquisition of Quaker European Petfoods which it has found hard to digest.

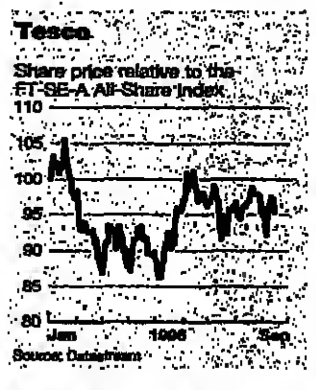
■ **Hays:** The UK business services group is likely to emphasise the growth potential of its existing businesses and argue that it does not need acquisitions, when it reports full-year results today. The expected comments follow the group's failed attempt to buy Christian Salvesen, the distribution and specialist plant hire group, for £1.18bn in August.

Analysts forecast that Hays will record pre-tax profits of £130-£138m, ($207m) against £110.3m last year, with all three divisions showing an improvement.

■ **Morgan Crucible:** The UK speciality materials group is expected today to report increased first-half profits of about £49m-£50m ($78m) compared with £42m, following strong growth in its main carbon and ceramics operations. It has seen some recovery in demand for US autocomponents and organic growth elsewhere.



Source: Datastream



Source: Datastream

■ **English China Clays:** The minerals and speciality chemicals group is expected to report sharply reduced first-half profits of £20m-£25m ($39m) today, compared with £55.3m last time. The supplier of paper industry products such as mineral pigments and speciality chemicals has been hit by heavy destocking by paper manufacturers. Analysts are split on whether it will cut its dividend from last year's 5.5p interim payout.

■ **Laporte:** The UK's fourth largest chemicals company is today expected to report lower interim pre-tax profits of about £58m ($90m), compared with £67m. This is partly due to the continued poor markets that held the group back in the second half of last year, and also to accounting changes brought in by new chief executive Mr Jim Leng, which have led to lower reported profits.

■ **Sears:** Mr Liam Strong, chief executive of the UK retail group, will be on trial for his job when he reports first-half figures tomorrow. Dissatisfaction with his failure to engineer a prolonged recovery spilled over at the annual meeting in June, when there were calls for his resignation.

Analysts believe the company will be lucky to report pre-tax profits much above £20m ($31m) this time. They will be more interested to know whether Selfridges is benefiting from an upturn in department store spending; whether the Freemans mail order business is back on track; and whether focusing on fewer formats is helping the shoe business put the Facia debacle behind it.

■ **Tesco:** Interim pre-tax profits at the UK supermarket chain are forecast to rise to £310m-£335m ($522m) compared with £290m, when the group reports tomorrow. Issues will be the impact of the J. Sainsbury loyalty card – only launched in June – and how the new "Unbeatable value" price initiative is affecting margins.

■ **Britannic Assurance:** The UK life and pensions group is expected to report a 9 per cent rise in its interim dividend to 5p on Wednesday. The group does not announce a profit figure at the interim stage.

■ **Next:** The UK retailer which has recently rejoined the FT-SE 100 index is expected to report interim profits on Wednesday of between £52m ($81m) and £55m, up from £50.1m a year ago. Analysts will be curious to hear if the group feels there is scope for collaboration with Great Universal Stores, now that Lord David Wolfson is chairman of both companies.

■ **RMC:** Analysts are expecting a decline in pre-tax profits to about £100m ($156m) from £130.1m when the UK building materials group announces interim figures on Thursday. The company's comments on the outlook for the second half and 1997 will be important for sentiment towards the shares. A modest increase in the 7.7p interim dividend is expected.

Enthusiasm for luxury brands

Strong response to the international primary offer for Leica Camera, the German camera and optical group, has highlighted investor enthusiasm for companies with well-known luxury brands.

With many investment bankers preoccupied with forthcoming European privatisations – ENI of Italy and Deutsche Telekom – the focus last week in the primary international market was again on these and other European small and medium-sized companies.

Leica's shares were priced last Thursday at DM47 (£20.4), raising up to DM168m for the company. Mr Connor Colleen, head of equity capital markets at UBS, joint global co-ordinator with Westdeutsche Landesbank, said the deal had been oversubscribed by more than 20 times. "It was difficult to pick your way through the list: who was in it for real value and who was in it for the flip," he said.

The success augurs well for Tag Heuer, the Swiss watch manufacturer, whose bankers began their marketing campaign for its forthcoming international share offer last week. Pricing of Tag Heuer's SFr400m (£222m) issue is expected at the end of the month.

Leica and Tag Heuer follow a number of other luxury good makers to international markets, including Gucci, Bulgari, Harvey Nichols and Sachs Fifth Avenue.

According to Mr Colleen, demand for the Leica shares came mainly from Europe, with investors from the UK, Germany, Switzerland and France enthusiastic buyers.

Meanwhile, a string of other medium-sized European companies are also in the market. Book building continued last week for Gruppo Ceramiche Ricchetti, an Italian tile manufacturer, which is seeking to raise up to $60m (£40m). BG Bank, the third largest Danish bank with a market capitalisation $1bn, is seeking a capital increase of $110m in a deal likely to come to the market in the next few weeks. Also in the pipeline is a $100m deal for an Italian company which make instruments for the healthcare sector.

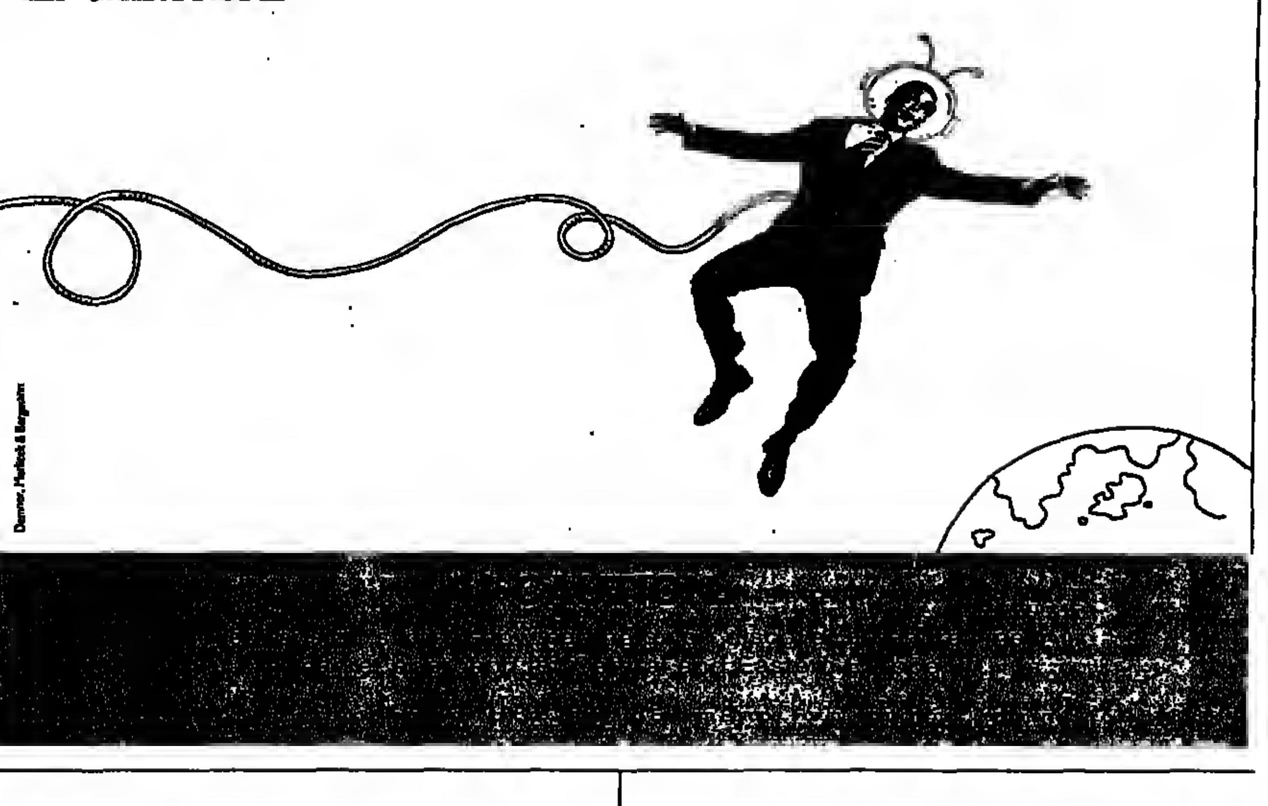
Elsewhere, the emerging markets of Asia and Latin America are also providing investors with some new mid-sized stocks. Pricing of a $300m in global depositary receipts (GDRs) issued by Kookmin, the first of a list of Korean banks coming to the market, is expected soon.

CS First Boston has won the mandate to co-ordinate the international placement of shares in Luz del Sur, the Peruvian electricity distributor. The government, which is thought to want to complete the offering this year, is selling its 30 per cent stake in two domestic and one international tranches.

The fee for the deal will be 3¼ per cent.

The international sale, the biggest since the government raised nearly $1bn through the sale of shares in Telefonica de Peru in July, is expected to raise about $100m.

Finally, the Bank of Cyprus announced last week that it plans to raise C£75m (£52.5m) in a convertible bond and equity offering. Some C£35m-40m of the C£50m convertible bond, which is being listed in Luxembourg, is being offered to international investors. The group also intends to launch a C£25m rights issue on, or after, May 1 1997. Proceeds will be used to strengthen capital adequacy ratios and underpin the bank's development. Salomon Brothers is lead manager of the international tranche. This will be the first time a Cypriot financial instrument has been listed on a European exchange.



FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	FRIDAY SEPTEMBER 13 1996: US Dollar Index	Day's change % since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	THURSDAY SEPTEMBER 12 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (78)	203.75	7.2	194.31	142.21	160.19	170.83	0.5	4.47	202.87	193.40	141.04	159.49	169.41	212.18	179.77	191.01
Austria (24)	178.11	0.3	137.01	122.23	137.88	137.81	6.0	2.04	174.70	168.54	121.48	137.34	137.26	195.04	168.11	179.12
Belgium (27)	216.57	3.5	208.55	151.17	170.28	166.42	9.6	4.00	216.19	206.09	150.29	169.96	165.97	218.89	187.17	187.17
Brazil (28)	182.21	32.1	173.79	127.18	143.27	341.97	38.8	1.90	180.85	172.41	125.73	142.18	339.35	189.70	123.97	157.27
Canada (117)	168.64	12.3	158.93	116.32	131.02	165.23	12.7	2.19	164.65	156.98	114.46	129.44	163.48	168.84	134.14	148.38
Denmark (30)	316.80	10.4	304.08	222.53	250.67	252.68	16.1	1.82	319.04	304.14	221.79	250.82	252.82	321.04	276.89	280.66
Finland (28)	208.85	11.8	199.18	145.78	164.21	200.38	17.5	2.49	207.57	197.88	144.30	163.19	199.05	275.49	171.78	209.97
France (93)	193.97	8.1	186.00	135.39	152.51	156.92	14.0	3.09	192.83	183.83	134.06	151.60	156.07	198.39	167.70	173.94
Germany (58)	175.41	7.2	167.30	122.44	137.92	137.92	13.2	1.78	173.78	165.66	120.81	136.62	136.62	177.83	155.68	159.59
Hong Kong (59)	434.17	12.0	414.06	303.06	341.37	431.00	12.0	3.54	430.24	410.16	299.10	338.24	427.10	451.19	364.67	373.29
Indonesia (27)	197.27	-	188.14	137.70	155.11	261.12	-	1.69	194.74	185.85	135.38	153.10	277.88	-	-	-
Ireland (16)	291.80	14.2	278.31	203.68	229.44	255.74	13.9	3.50	290.86	277.37	202.27	228.74	254.80	292.15	241.27	242.28
Italy (58)	75.23	2.1	71.75	52.51	59.15	95.85	-1.7	2.51	73.79	70.24	51.30	58.01	94.20	94.53	67.22	80.27
Japan (481)	143.66	-7.3	137.01	100.27	112.95	100.27	-0.7	0.78	142.24	135.59	98.88	111.82	98.88	164.68	137.75	145.12
Malaysia (107)	555.87	14.8	530.15	388.00	437.06	534.89	12.8	1.22	554.18	528.30	385.27	435.68	533.57	585.09	425.77	502.80
Mexico (18)	1264.28	22.1	1205.60	882.48	994.06	10387.32	19.0	1.29	1264.15	1205.09	878.82	993.82	10421.97	1325.55	791.99	1182.02
Netherland (19)	300.97	10.4	287.05	210.06	236.65	232.85	16.7	3.11	299.87	285.87	208.47	235.78	231.80	304.24	250.15	250.65
New Zealand (16)	85.32	7.1	81.38	59.56	67.09	85.12	0.7	4.21	85.10	81.13	59.16	66.91	65.00	86.68	75.94	79.26
Norway (36)	253.15	9.6	241.45	176.71	199.08	222.83	12.5	2.16	252.41	240.62	175.48	198.44	221.94	256.94	222.24	231.94
Philippines (22)	205.12	-	195.68	143.18	161.26	268.08	-	0.59	204.65	195.09	142.27	160.88	267.48	-	-	-
Singapore (44)	396.09	-2.7	377.77	276.47	311.43	257.33	-3.1	1.09	393.75	375.57	273.74	309.56	255.60	465.21	360.48	366.37
South Africa (44)	348.57	-9.8	332.75	243.52	274.31	343.21	11.8	2.21	345.87	329.71	240.45	271.91	340.30	437.76	314.20	352.66
Spain (37)	176.29	6.7	168.13	123.05	138.61	170.47	12.3	3.44	174.16	166.01	121.07	136.91	168.38	193.85	145.18	152.96
Sweden (48)	373.90	19.8	356.61	260.99	293.99	369.86	20.8	2.31	368.19	351.00	255.97	289.45	364.30	373.90	294.19	310.26
Switzerland (38)	244.54	3.7	233.32	170.76	192.35	186.19	11.8	1.57	243.81	232.23	169.36	191.52	186.67	254.34	202.79	202.79
Thailand (46)	136.91	-18.6	130.58	95.56	107.65	194.99	-17.9	2.53	135.74	129.40	94.37	106.72	133.74	193.95	128.90	166.13
United Kingdom (200)	249.34	8.2	237.81	174.04	196.05	237.81	8.0	4.02	247.38	235.89	171.98	194.49	235.88	249.34	220.57	223.89
USA (623)	277.25	10.3	264.43	193.52	218.00	277.25	10.3	2.14	275.54	260.76	190.16	215.05	273.54	277.25	236.29	236.29
Americas (787)	253.52	10.7	241.79	176.86	199.33	213.18	10.5	2.13	250.16	238.50	173.92	196.88	210.39	253.52	215.17	216.52
Europe (706)	216.52	7.8	206.50	151.13	170.24	188.60	11.0	3.03	214.85	204.81	149.35	168.91	187.03	218.96	181.44	193.35
Nordic (137)	319.71	15.9	304.92	223.18	251.38	275.96	16.5	2.24	316.41	301.64	219.97	248.76	274.10	319.71	261.13	269.57
Pacific Basin (878)	167.85	-4.5	150.55	110.18	124.11	111.69	0.5	1.24	156.41	149.11	108.74	122.97	110.50	177.01	148.86	158.17
Euro-Pacific (1584)	182.16	1.2	173.73	127.15	143.23	140.81	5.4	2.12	180.63	172.19	125.57	142.00	139.35	190.57	166.51	171.56
North America (740)	270.49	10.4	257.97	188.80	212.68	269.82	10.5	2.14	266.88	254.42	185.54	209.81	266.24	270.49	230.17	230.73
Europe Ex. UK (506)	194.16	7.6	185.15	135.52	152.68	160.65	12.7	2.47	192.68	183.68	133.95	151.48	159.31	195.76	170.51	172.90
Pacific Ex. Japan (397)	285.88	6.1	272.65	199.54	224.78	248.37	5.7	3.01	284.14	270.87	197.53	223.38	244.64	298.68	243.59	260.51
World Ex. US (1763)	183.87	1.6	175.96	128.34	144.57	145.86	6.0	2.12	182.31	173.79	126.74	143.33	144.18	191.55	137.36	172.84
World Ex. UK (2215)	209.60	5.0	199.90	146.23	164.72	178.19	7.8	1.93	207.21	197.54	144.05	162.90	176.06	213.05	195.61	199.21
World Ex. Japan (1934)	250.20	9.2	238.62	174.64	196.72	236.63	10.5	2.49	247.50	235.94	172.06	194.57	234.02	250.20	217.26	218.66
The World Index (2415)	212.93	6.3	203.06	148.63	167.42	193.49	7.9	2.13	210.67	200.83	146.46	165.62	191.96	214.96	188.87	192.22

MARKETS: This Week

NEW YORK By Richard Waters

After last Friday's surge in US stock and bond prices, there is little in the way of economic news on the horizon to threaten the markets' new, lofty levels. Barring the unexpected, the Federal Reserve's next policy meeting in eight days seems to be the next event with the potential to destroy this new-found confidence.

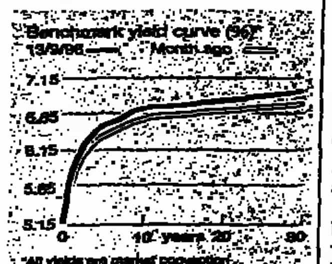
Friday's news of a modest rise in consumer prices and, in particular, a continuing slowing in retail sales, has largely erased concerns of an interest rate rise later this month. By the end of last week, economists on Wall Street predicting a ¼-point rise in the Fed Funds rate next week had become a minority.

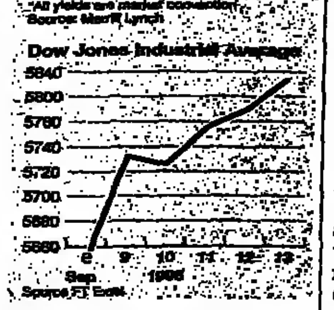
Evidence that the US economy is cooling after its surprisingly strong start to the third quarter helped drive the yield on the long bond back below 7 per cent. That, in turn, was enough to lift the Dow Jones Industrial Average to its first close above 5,800.

A thin calendar for economic data this week includes the release tomorrow of industrial production and capacity utilisation figures for August. Industrial production is generally reckoned to have bounced back with a rise of 0.3 per cent during the month, after a 0.1 per cent increase in July.

Capacity utilisation is expected to have held steady at around 83.3 per cent, nearly 2 percentage points below the peak in early 1995, and not a level that has aroused bond market concerns.

The stock market, meanwhile, last week shrugged off a handful of profit warnings, including one from Motorola, in its rise to a new record.





LONDON By Philip Coggan

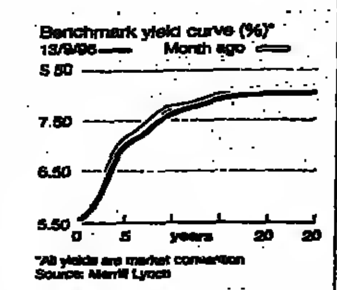
London financial markets should start the week in confident mood, having seen the FT-SE 100 chalk up all-time intra-day and closing highs last Friday. The December Footsie futures contract closed above the 4,000 level.

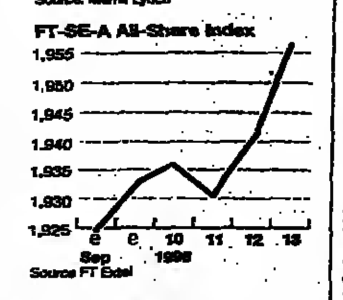
The UK markets were buoyed by US economic data which suggested that the Federal Reserve would not need to be too aggressive in its monetary policy. The data spurred a rally in Treasury bonds on Friday which was followed by gilts.

There have also been domestic factors behind the rally. The results season got into full swing last week, and the leading companies which reported generally met or exceeded expectations. Liquidity, which has been one of the principal factors supporting the market, was given a further boost by the announcement of £613m of special dividends (over three years) from Reuters.

Among the industry stalwarts reporting next week are Dalgety, Morgan Crucible and English China Clays, while retailers Next, Tesco and Sears all come out with figures. It looks as if the UK economy is rebounding from the lull experienced in the first half of 1996, and the consumer sector, in particular, looks buoyant.

Such developments may eventually worry gilts and restrict the ability of Kenneth Clarke, the chancellor, to cut UK interest rates. The debate will be highlighted by retail sales numbers, due on Wednesday, and by the CBI's monthly trends survey on Thursday. Short sterling futures, the market's vehicle for speculating on rate changes, are looking for rates to climb next year.





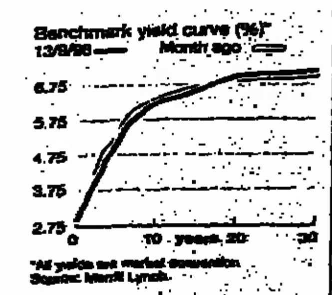
FRANKFURT By Wolfgang Münchau

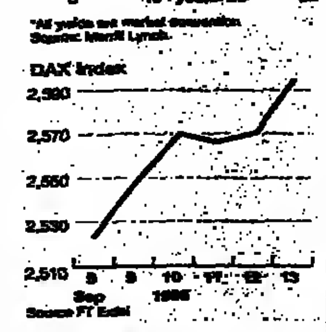
German markets ended the week with a euphoria not seen since the beginning of the year, on the back of a series of events in the US and at home.

The DAX share index closed at an official record of 2,596, and in late trading went on to breach 2,600 for the first time. The bond markets also bounced up, with the DTB-traded December Bund futures contract ending at 97.99, up 76 basis points. The impetus for both markets came from a variety of sources. The Bundesbank continues to signal that German interest rates will either remain at their current low levels, or may even fall further. Benign US inflation figures and the resulting prospect of continued low US rates have helped underpin German market sentiment.

The two other critical factors that supported the markets towards the end of the week were the dollar and the government's surprisingly comfortable victory in parliament, with the approval on Friday of budget cuts and labour market reforms. The Bundesbank said earlier in the week the passing of the package – including elements that have yet to be voted on and further savings measures at a state level – were necessary for Germany to pass the Maastricht Treaty's qualifying criteria for the single currency. The Bundesbank also forecast a public sector deficit of 4 per cent of gross domestic product this year, compared with the Maastricht ceiling of 3 per cent.

The final piece of good news for the markets, especially equities, is the relative weakness of the D-Mark against the dollar, which ended the week in Frankfurt at DM1.5124.





TOKYO By Emiko Terazono

Last week's stock market rallies on receding expectations of a US monetary tightening is likely to help Tokyo this week. Higher share prices in the US will boost hopes of a return of overseas investors to the Tokyo market.

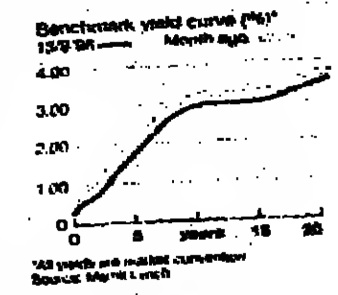
There are signs that foreigners, who have been liquidating their holdings recently, are coming back. Last week figures released by the Tokyo Stock Exchange indicated that foreigners became net buyers for the first time in nine weeks during the five trading days to September 6.

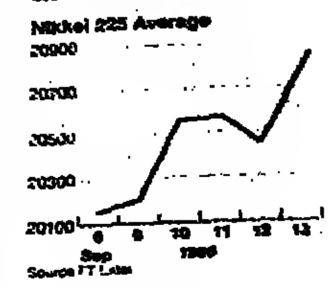
Some foreign institutions were seen buying international blue chips such as cars and electronics in small lots last week. The yen's fall against the dollar has spurred purchases of such export-oriented companies.

Share prices, however, could feel pressure from profit-taking by corporations and financial institutions ahead of the interim book-closing at the end of this month. Some investors are already starting to realise latent profits on their books, and trading volumes on the Osaka exchange last week surged because of cross-trading – the selling and buying back of shares by investors looking to realise gains on their holdings without changing their portfolios.

Bonds, which rallied on last week's release of first-quarter GDP figures, are likely to see continued buying. The data, which showed Japan's first drop in quarter-on-quarter growth in eight quarters, suggest the Bank of Japan will stick to its current monetary policy.

The ministry of finance is expected to offer Y1,300bn in new three-month Treasury bills on Tuesday.





COMMODITIES By Richard Mooney

Gold dealers look for clues

The gold market has been desperately short of talking points recently as it has continued to fluctuate in its narrow trading range.

Last week, for instance, the "will-they-won't-they" debate on the outcome of the International Monetary Fund's deliberations on the proposed sale of 5m troy ounces of gold from its reserves to provide debt financing for poor countries was just about the only thing dealers and analysts could point to as the price edged down to the support level at $382 an ounce.

Most of them admitted, however, that the issue was not of the first importance. "In market terms, it's peanuts," said one.

In these circumstances analysts are likely to look more closely than usual at the Gold Survey Update when it is released on Wednesday by Gold Fields Mineral Services, to see if it gives any clues as to whether they should be looking for a renewed test of support, a challenge to overhead resistance, or simply "more of the same".

● Other events this week include the two-day Australian Diamond Conference that begins in Perth tomorrow. That day also sees the publication of the Australian Bureau of Agricultural and Resource Economics' quarterly commodities bulletin and, in Hamburg, the opening of F.O. Licht's three-day conference of Regenerating the Coffee Market.

On Wednesday the three-day Metal Bulletin conference on Southern Africa Metals and Minerals begins in Johannesburg; and in Kuala Lumpur senior officials of the Association of Tin Producing Countries commence three days of meetings ahead of next week's ministerial meeting.

In London on Wednesday the Association of Mining Analysts will host a presentation by Eramet of France, the world's third-largest producer of nickel.

On Friday the International Primary Aluminium Institute publishes its production data for August.

OTHER MARKETS Compiled by Jeffrey Brown

MILAN

Analysts and investors in Olivetti will have to wait a little longer for reassurance from Mr Francesco Caio, chief executive; his meeting with them, planned for today, and at which he was to explain the information technology group's half-year results, has been postponed until September 30.

The shares tumbled 23.6 per cent last week as they returned after two days' suspension following the previous week's resignations and allegations, denied by Olivetti, that the pnblished half-year results were misleading.

The market will also have a keen eye on Parmalat, which also took a tumble after a botulism scare led to a halt in the sale of its mascarpone cheese.

Coincidentally, the International Investor Relations Federation holds its seventh annual conference in Milan today, while Thursday brings half-year results from Fiat, with analysts looking for pre-tax profits to drop by about 25 per cent.

PARIS

Having broken the 2,000 level to push the main CAC-40 index back within range of April's peaks, the Paris bourse is likely to remain heavily influenced by corporate news.

The half-year results reporting season is now in full swing and the ensuing focus on the corporate sector has been one of the main reasons for the recent outbreak of takeover talk.

Oil prices, which last week surged through $24 a barrel for Brent Blend, the North Sea marker price, can also be expected to underpin stock market activity.

The French budget is officially unveiled on Wednesday and, as a result, the flow of monthly economic data is limited. The franc has continued to soften, but the currency and bond markets have been more relaxed recently.

According to some commentators, this could shortly change. The budget deficit is to be reduced by 3 per cent, but Wednesday will provide a clearer view of how this is to be achieved. In the past, market disappointment on this score has sparked currency jitters.

The main company results emerge on Thursday with Saint Gobain and Pechiney due to report. Most brokers are looking for dull earnings from both companies.

Michelin rolls out interims tomorrow, and Cie Bancaire has the chance to try to match recent strong results from the financial sector on Thursday.

HONG KONG

A return of more bullish sentiment is expected to continue sweeping the Hong Kong market this week, with buyers pushing the property and banking sectors higher.

Strong annual results last week from Henderson Land, one of the territory's biggest property developers, appear to have convinced investors that the residential property market has bounced back.

Banking stocks have also been sought with global giant HSBC Holdings closing on Friday at a record HK$137.50, buoyed also by strength in the UK market. The benchmark Hang Seng Index pierced the resistance level of 11,300 to close on Friday at 11,369.04.

Analysts have begun to speculate that the Hong Kong market could soon make an assault on its high for the year of 11,600.

STOCKHOLM

Among the Nordic bourses, attention in Stockholm is likely to focus on cash-heavy companies such as Volvo, Sandvik and SSAB in the hope they will follow Nordbanken's recent lead and splash out on a share buyback. News of the SK1.5bn buy-back helped the Swedish bourse push through to a new high last week. The budget bill will be presented to parliament on Friday.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Canal Plus (France)/ Nethold (N'lands)	Merger	Pay-TV	$1.5bn	European carve-up nears end
P&O (UK)/Nedlloyd (N'lands)	Merger	Shipping	$1.5bn	Container consolidation
Danka Business Systems (UK)	Unit of Kodak (US)	Office equipment	$684m	Sales-trebler for Danka
Union Petrochemical/ USI Far East Corp (Taiwan)	Units of BTR (UK)	Plastics	$300m	BTR launches disposals
BBA Group (UK)	Corovin (Germany)	Textiles	$120m	Bolt-on buy
Gen Atlantic Partners (US)	Mobile Systems (UK)	Telecoms	$56m	Taking 20% stake
Zellweger Luwa (Switz)	Neotronics Technology (UK)	Detection instruments	$36m	Cash sale for Essex men
St Ives (UK)	Perimuter (US)	Printing	$35m	Niche purchase
Publicis (Italy)	BCP (Canada)	Advertising	n/a	Westerly expansion

CURRENCIES By [illegible]

French franc takes limelight ahead of Fed move

As the international currency markets await the Federal Reserve's decision on raising US interest rates, the French franc will this week steal some of the limelight from the dollar.

On Wednesday the French government delivers its full 1997 budget proposals, although most of the policy outlines have already been announced.

The budget details will be scrutinised to gauge whether the government's spending cuts and tax reforms will contain the public deficit within the 3 per cent target for membership of European monetary union (Emu).

Following the budget's release, the Bank of France will hold its regular monetary policy council meeting on Thursday.

The French franc has looked firmer after another shaky summer, as the D-Mark has retreated from the FFr3.42 level thanks to the recent strength of the US dollar. As analysts at PaineWebber in London put it: "'French franc in crisis' is the Princess Diana of financial headlines: it can always be relied upon to shift copy."

But other analysts are not so optimistic about the franc. Mr Nick Stamenkovic, economist at DKB International in London, says it remains vulnerable, given France's poor fiscal outlook.

The outlook for the US dollar remains uncertain, with the rise in oil prices because of tension over Iraq, and opinion divided over the outcome of the upcoming Federal Open Markets Committee meeting on September 24. There is interest in further signs of tension within the Fed, between those members wanting to raise rates soon and those who do not. The latter group is reputed to include Mr Alan Greenspan, the chairman.

Signs of a continuing recovery in Germany may be seen on Wednesday, with the release of the Ifo business climate survey for August. On the same day, the Bundesbank's favourite indicator, M3 money supply for August, is due out.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, September 13, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7383.40	4750.00	5140.70	4301.56
Albania	(Lek)	170.129	109.460	72.3684	99.1171
Algeria	(Dinar)	84.6802	54.4778	36.0207	49.3346
Andorra	(French Fr)	8.0169	5.1575	3.4101	4.6705
	(Sp Peseta)	198.411	127.645	84.3990	115.594
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		£ STG	US $	D-MARK	YEN (X 100)
Greece	(Drachma)	374.509	240.933	159.308	218.169
Greenland	(Danish Krone)	9.0563	5.8275	3.8531	5.2773
Grenada	(E Carib $)	4.1969	2.7000	1.7852	2.4451
Guadeloupe	(Local Fr)	8.0169	5.1575	3.4101	4.6705
Guam	(US $)	1.5544	1	0.6612	0.9056
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		£ STG	US $	D-MARK	YEN (X 100)
Oman	(Rial Omani)	0.5986	0.3851	0.2546	0.3487
Pakistan	(Pak. Rupee)	57.4087	36.9330	24.4201	33.4462
Panama	(Balboa)	1.5544	1	0.6612	0.9056
Papua New Guinea	(Kina)	2.0279	1.3046	0.8626	1.1814
Paraguay	(Guarani)	3225.38	2075.00	1371.99	1879.10
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[redacted]

The East Driefontein division of the company has been affected by continued violent conflicts among groups of employees since 18 July 1996. Thirty-four employees have lost their lives in these tragic and deeply regrettable circumstances. Structures aimed at protecting the lives of employees have been established with the assistance of senior members of the provincial department of Public Safety and Security.

During this period, operations at the mine have been affected by sporadic work stoppages, resulting in a total of six shifts lost to date. Furthermore, some 1 700 employees, representing approximately 14 per cent of the total workforce, have not yet reported for work. Total revenue losses during this period to date are estimated at R35 million.

Management has engaged the services of a conflict resolution expert to assist in its efforts to reduce the potential for violence, thereby effecting a return to work by all employees.

Johannesburg [redacted] 12 September 1996

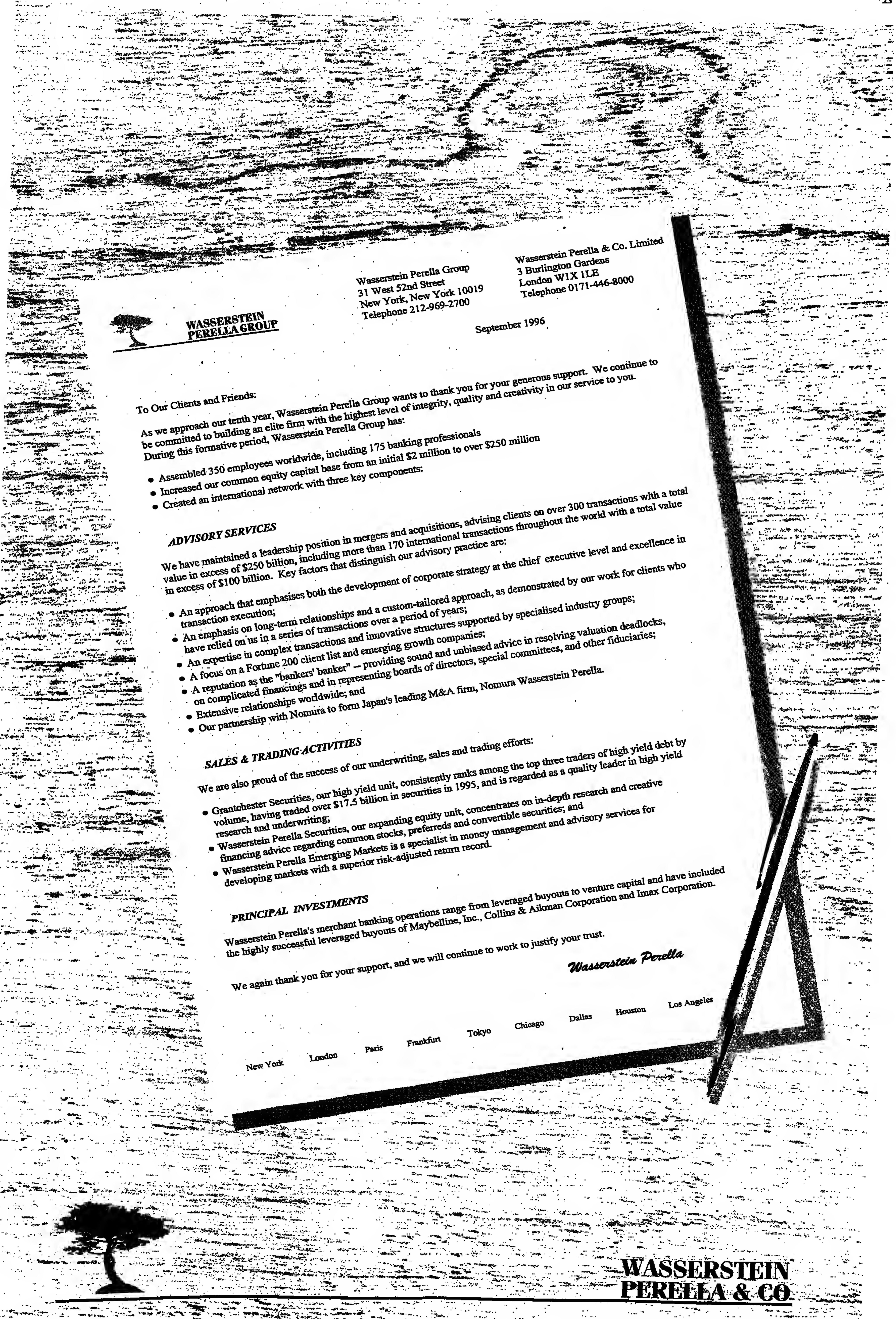
[redacted]

The Leeudoorn division of the company has been affected by sporadic violent conflicts among groups of employees in the latter half of August. Five employees have lost their lives in this tragic and deeply regrettable circumstances.

Operations at the mine could not proceed from 20 to 28 August, with a total of eight shifts being lost. Some 1 100 employees, representing approximately 16 per cent of the total workforce, have yet to resume work. Revenue losses over this period are estimated at R15 million.

Management's efforts to reduce the potential for violence continue, with the aim of effecting a return to work by all employees.

Johannesburg [redacted] 12 September 1996



WASSERSTEIN PERELLA GROUP

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September 1996

To Our Clients and Friends:

As we approach our tenth year, Wasserstein Perella Group wants to thank you for your generous support. We continue to be committed to building an elite firm with the highest level of integrity, quality and creativity in our service to you. During this formative period, Wasserstein Perella Group has:

- Assembled 350 employees worldwide, including 175 banking professionals
- Increased our common equity capital base from an initial $2 million to over $250 million
- Created an international network with three key components:

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We have maintained a leadership position in mergers and acquisitions, advising clients on over 300 transactions with a total value in excess of $250 billion, including more than 170 international transactions throughout the world with a total value in excess of $100 billion. Key factors that distinguish our advisory practice are:

- An approach that emphasises both the development of corporate strategy at the chief executive level and excellence in transaction execution;
- An emphasis on long-term relationships and a custom-tailored approach, as demonstrated by our work for clients who have relied on us in a series of transactions over a period of years;
- An expertise in complex transactions and innovative structures supported by specialised industry groups;
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- A reputation as the "bankers' banker" – providing sound and unbiased advice in resolving valuation deadlocks, on complicated financings and in representing boards of directors, special committees, and other fiduciaries;
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- Our partnership with Nomura to form Japan's leading M&A firm, Nomura Wasserstein Perella.

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We are also proud of the success of our underwriting, sales and trading efforts:

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Wasserstein Perella's merchant banking operations range from leveraged buyouts to venture capital and have included the highly successful leveraged buyouts of Maybelline, Inc., Collins & Aikman Corporation and Imax Corporation.

We again thank you for your support, and we will continue to work to justify your trust.

Wasserstein Perella

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MARKETS: This Week

EMERGING MARKETS

Taiwan arrives on foreign stage

Taiwan's stock market is about to be transformed from an isolated and closed market to one which is outward-looking, international and more closely connected with the rest of the investment world.

The market was opened to limited amounts of foreign investment in 1991, but until now Taiwan share prices have been driven almost purely by domestic factors, with foreigners as marginal players. But with the inclusion of the Taiwan market in benchmark emerging market stock indices run by US investment bank Morgan Stanley on September 2, Taiwan shares will soon see a large and unprecedented influx of foreign funds, reshaping the culture and behaviour of the market.

"You cannot think of Taiwan as a pure domestic market anymore. It is now becoming one of the Asian markets, whereas it was basically ignored before," said a Hong Kong-based fund manager.

Stock analysts predict the Morgan Stanley initiative will lift average foreign holdings from the current 4 per cent of total market capitalisation to about 10 per cent over the next year. This would translate into fresh foreign funds of US$10bn – $12bn as fund managers adjusted their portfolios to reflect the weightings given Taiwan in Morgan Stanley's indices. This is still well below the government-imposed ceiling on overall foreign holdings of 30 per cent of total market capitalisation. As of September 9, the ceiling stood at US$48.9bn, of which US$10bn was already invested, according to central bank figures. Market capitalisation stood at US$245bn.

Foreigners generally prefer blue chip stocks, but of the 360 companies listed on the Taiwan stock exchange, only 50 have no foreign holdings. Foreigners are also investing in the fledgling over-the-counter exchange, with 66 listings. There has been no immediate invasion of funds, but there has been a surge in applications and approvals since August. "People aren't rushing in; they are slowly and carefully picking the companies they want to buy," said a Taipei-based securities analyst.

The approval process alone takes a month, so the full impact will not felt until later this year. Analysts point out that the difference between foreign investment in the past and the new wave of funds is the domination of US institutions, which had shied away from the Taiwan market. The scale of investment by US funds is far greater than that of the mainly European and Asian funds which entered

the market earlier.

Higher levels of foreign institutional investment should prove a positive and stabilising force for the market, as foreign investors tend to adopt a longer-term investment strategy than local investors. The market remains dominated by retail investors, who account for nearly 90 per cent of daily trading volume, and who regard three weeks as a long-term investment.

The chief question among investors, domestic and foreign, is whether the government can fulfil its promise of stimulating the economy, which continues to be weak, especially in the property and semiconductor sectors.

The government hopes to jump-start it with monetary measures; by re-igniting the property market, which has been in the doldrums for years; and by speeding up spending on infrastructure development, which is well behind schedule. Monetary measures, including lowering interest rates and bank reserve ratios, have not worked. If the other strategies are successful, the steel, cement and construction sectors should get a boost. The petrochemical sector has begun to recover, but semiconductors are not expected to regain strength until the second half of next year.

Analysts agree that market valuations are on the high side relative to other Asian stock markets. But they differ on the market's potential. Some see upside as limited until the high-technology sector recovers from its cyclical slump. Others, however, believe with the large amounts of unutilised liquidity now available in the system, the influx of foreign funds could spark a retail-dominated rally.

"When this market goes on a liquidity run, you just don't know how high it will go," said the Hong Kong-based fund manager. The 1996 price-earnings multiple of 20 times could easily rise to 30 in a liquidity-driven rally, he said.

Taipei's fraught relations with Beijing are as ever the biggest risk factor for the Taiwan stock market. Cross-straits ties have made little of the hoped-for progress since their March nadir, during Taiwan's first presidential elections, when China held missile tests threateningly close to the island. There have been no "disasters" of late, so the market is more or less trading on fundamental rather than political factors.

President Lee Teng-hui said in August the government should review its policy of placing China at the heart of the island's plans to become a regional business hub. Although Mr Lee's comments were quickly downplayed, they had a dampening effect on investment in China.

The chill is temporary, but until it lifts interest in China-play stocks will be limited.

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	13/9/96	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (431)	159.82	+2.19	+1.38	+1.78	+1.12	+12.26	+8.31
Latin America							
Argentina (22)	94.72	+3.77	+4.14	+3.04	+3.32	+1.94	+2.10
Brazil (23)	242.27	+4.09	+1.72	+1.87	+0.78	+56.19	+30.19
Chile (16)	184.99	+1.31	+0.71	-4.30	-2.27	-10.67	-5.46
Colombia (14)	168.33	-3.87	-2.40	-2.30	-1.34	+5.08	+3.09
Mexico (24)	84.54	+0.24	+0.28	+0.96	+1.14	+10.94	+14.87
Peru (13)	1177.44	+2.19	+0.19	-3.00	-0.25	+108.48	+10.15
Latin America (112)	141.50	+1.98	+1.42	+0.95	+0.68	+19.36	+14.81
Europe							
Greece (18)	117.29	+2.08	+1.81	+7.96	+7.31	+19.32	+19.72
Portugal (20)	139.06	-1.78	-1.25	+1.57	+1.14	+22.60	+19.41
Turkey (25)	100.79	+0.95	+0.95	-0.17	-0.17	+17.99	+21.73
South Africa (30)	142.86	+1.77	+1.26	+6.43	+4.72	-10.52	-6.86
Europe (134)	123.81	+1.12	+0.91	+5.28	+4.45	+2.28	+1.88
Asia							
China (24)	44.48	-0.59	-1.29	-0.32	-0.71	+4.13	+10.26
Indonesia (31)	134.75	+3.19	+2.42	+4.95	+3.73	-3.90	-2.81
Korea (23)	101.28	-1.94	-1.88	-8.63	-7.85	-35.63	-26.02
Malaysia (23)	253.72	+2.13	+0.85	+1.73	+0.69	+26.36	+11.59
Pakistan (14)	70.23	-1.40	-1.96	-4.93	-6.56	-3.36	-4.57
Philippines (14)	328.26	+2.35	+0.72	+11.19	+3.53	+69.09	+26.66
Thailand (25)	199.35	+8.54	+4.47	-10.74	-5.11	-52.54	-20.86
Taiwan (31)	179.73	+4.73	+2.71	+4.20	+2.39	+48.81	+37.30
Asia (185)	214.66	+3.34	+1.58	-0.05	-0.03	+11.61	+5.72

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

INTERNATIONAL BONDS ... Lapper and Samer Iskandar

Broadening investor base buoys Bradys

The rise in the prices of Brady bonds to a new all-time high last week has served to highlight the growing maturity of this sector of the emerging markets.

Although opinions differ on the extent to which the momentum can be held, most analysts and dealers agree the base of investors prepared to invest in Brady bonds, and more generally emerging market debt instruments, is widening.

With interest rates in the US and Europe still relatively low, the higher yields offered by these markets have been drawing greater interest. And improving credit quality is likely to continue broadening the investor base. "Credit ratings will be rising gradually," said Mr Richard Gray at Bank of America. "Growth rates of one or two percentage points higher than in G3 countries [US, Japan and Germany] are sustainable over the foreseeable future."

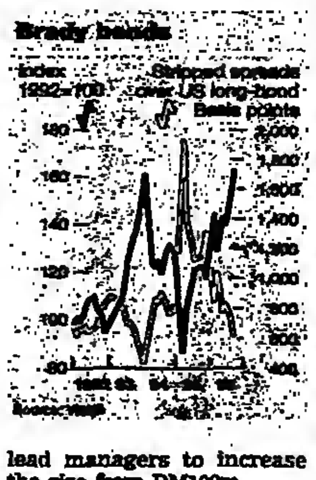
Alongside the hedge funds which dominated the market in its early days are a growing number of US institutions, including mutual funds and insurance companies, recently joined by a flood of retail investors, especially from Europe. Mr Jerome Booth, head of emerging markets research at ANZ Bank in London, said this new investor base was "more prudent".

Ms Ingrid Iversen, debt strategist at UBS in New York, said US insurance companies were now prepared to invest more money in emerging market debt instruments. Although the percentage of assets they are permitted to allocate is relatively small, the size of the overall funds at their disposal means they can have a big impact on prices.

"There is something much more solid about the market," said Ms Iversen. "This is not a sudden buying spree: it has been building up for some time."

"It is definitely US money driving the market," she said, adding that capital flows from Latin America itself were no longer as important in sustaining the upward direction of prices.

In Europe, retail buyers have been prominent in the market this year. Investment banks have sold repackaged Brady bonds as well as straightforward eurobonds to German, Swiss and Benelux private investors. In the latest, CS First Boston and Effectenbank re-packaged Venezuelan Bradys into a securitised DM150m bond issue on Friday. Indications of strong interest led the lead managers to increase the size from DM100m.



Analysts say the broader investor base bodes well for future price increases. In addition, despite the rise in average prices – reflected in the West Merchant Bank Index – yield differentials over US Treasuries still have some room to fall to reach the low levels achieved in January 1994. So-called stripped spreads – which aim to reflect more accurately the credit risk of the issuer by deducting the value of the colloteral – reached an average of 625 basis points last Friday, compared with 439 points in January 1994.

But the rise in prices is making some observers cautious, or at least more discerning about some markets. "While Mexico – and to a lesser extent Venezuela and Brazil – has much further to go, Argentina is very close to being fairly valued," said Mr Booth at ANZ Bank.

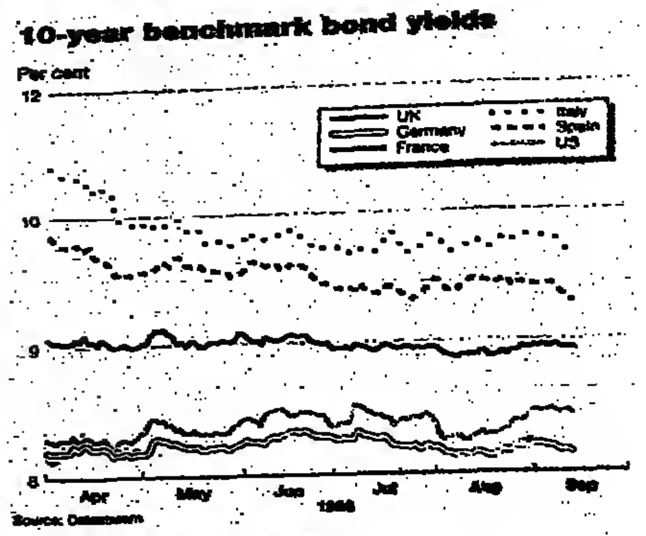
"Cracks have appeared in the consensus on Argentina, especially since the dismissal of [finance minister Mr Domingo] Cavallo," one fund manager said.

Less obvious domestic factors are also potential causes for concern. In Mexico, for example, "ongoing negotiations over debt restructurings between the government and some of its local banks could become a problem", according to one US investment banker. "Foreign investors might be losing in terms of the seniority of their cloims."

But the overall picture remains bullish, as analysts point out that Bradys remain cheap in relative terms. The 10-year yield spread of Mexican Bradys over US Treasuries, for example, still looks generous at around 350 basis points. During the peak of early 1994, this spread stood nearer the 200 basis point mark. Most Bradys still offer higher yields than corporate high-yielding bonds with similar ratings, in contrast to the situation before the bear market of 1994.

And the flow of funds into Bradys shows no sign of relenting. "There is still scope for further strong performance, based on continued cash inflows into these markets," said Ms Amy Falls, head of emerging markets research at Morgan Stanely.

10-year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	4.75[1]	8.25	5.75[2]
Overnight	5.19	0.44	3.00	3.45	8.31	5.69
Three month	5.20	0.34	3.00	3.58	8.21	5.88
One year	5.75	0.60	3.20	3.79	8.06	6.69
Five year	6.49	1.83	4.95	5.37	8.61	7.11
Ten year	6.74	2.90	6.17	6.27	9.21	7.71

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Tipco Asphalt(a)§	70	Sep 2006	2.75	100.00	-	-	Paribas Capital Markets
Chagal Pharmaceutical(b)◊	50	Sep 2000	3.375	100.00	-	-	Nomura International
Export-Import Bank of Korea	500	Sep 2001	7.125	99.586R	7.226	+44(6½%-01)	Nomura/SBC Warburg
Hokuriku Electric Power Co	300	Oct 2001	7.00	99.98R	7.005	+28(6½%-01)	IBJ Intl/Morgan Stanley
GMAC	200	Sep 1999	6.75	99.780R	6.836	+24(6%-99)	UBS
Banque Intl à Luxembourg(c)	100	Dec 1999	6.75	100.02R	6.73	+14(6%-99)	BIL/Citibank Intl
Byblos Bank	50	Sep 1999	9.25‡	99.762R	9.335	+285(6%-99)	SBC Warburg
Republic of Italy	1.5bn	Sep 2001	7.00	98.986R	7.005	+24(6½%-01)	M Stanley/SBC Warburg
European Investment Bank	1bn	Sep 2006	7.125	99.979R	7.128	+17(7%-06)	CSFB/Lehman Brothers
AUCMT, S 96-3, Class A(e)‡	650	Sep 2001	(e1)	100.00R	-	-	Merrill Lynch & Co
Federal Natl Mtg Assoc(f)	500	Sep 2006	7.93‡	99.945R	7.932	+80(7%-06)	Goldman/Lehman Bros
Fed Home Loan Mtg Corp(g)	500	Sep 2001	7.256‡	100.00R	7.256	+55(6½%-01)	JP Morgan Securities
Toyota Motor Credit Corp	300	Sep 1999	6.50	99.805R	6.574	+2(6%-99)	Merrill Lynch/Paribas
BGB Finance Ireland(g)	200	Dec 1999	6.625	99.865R	6.686	+12(6%-99)	Paribas Capital Markets
Beta Finance Corp	200	Oct 1999	6.625	99.77R	6.712	+10(6%-99)	UBS
France Telecom	400	Oct 2001	6.875	99.813R	6.969	+15(6½%-01)	Morgan Stanley/SGST
Deutsche Bank Finance(g)	250	Dec 1998	6.375	99.932R	6.428	[illegible]	Deutsche Morgan G'fell
Swedish Export Credit(i)	75	Dec 1998	6.75	100.3125R	6.623	+7(6%-98)	Kredietbank Intl Group
AMCCT, S 96-J, Cls A(h)‡	850	Sep 2003	(h1)	100.00R	-	-	JP Morgan Securities
Govt Housing Bk Thailand‡	200	Oct 2001	(k)	99.858	-	-	Deutsche Morgan G'fell
Commerzbank(g)§	200	Dec 1998	6.50	100.00R	6.515	+10(5¾%-98)	Commerzbank
World Bank★	100	Sep 1997	5.30	100.52	4.755	-	Nomura International
Banco America do Sul(j)	40	Sep 1999	9.75‡	99.51738	9.940	+340(6%-99)	Crédit Lyonnais
Korea Exchange Bank‡	100	Oct 1997	(l)	99.975R	-	-	Fuji Intl Finance
D-MARKS							
Tennessee Valley Authority	1.5bn	Sep 2006	6.375	98.175R	6.480	+17(6¼%-06)	Deutsche/Lehman Bros
MMCCT, 1996-1, Cls A(m)‡	1bn	Sep 2001	(m1)	100.00R	-	-	Merrill Lynch Bank
North East Finance of Japan	150	Oct 2003	5.875	99.553R	5.955	+14(6%-03)	Bank of TM/Bayer LB
Republic of Turkey(j)	150	Sep 2000	8.00	102.15	7.351	-	Commerzbank
BGB Finance Ireland	750	Oct 2001	5.375	99.825R	5.418	+35(5%-01)	CSFB/JP Morgan
City of Montreal‡	110	Oct 2003	(p)	99.88	-	-	DG Bank
Abbey Natl Treasury Services	1bn	Sep 2002	5.625	99.315R	5.763	+20(6%-02)	Deutsche Morgan G'fell
Republic of Venezuela	650	Oct 2003	10.25	99.76R	10.30	+440(6%-03)	WestLB
Nestlé(p,r)	500	Dec 2001	5.125	99.89R	5.150	+16(5%-01)	SBC Warburg
Unilever(t)	300	Oct 2001	5.125	99.808R	5.170	+14(5%-01)	ABN Amro/Deutsche
Synthetic Sovereign Inv(C,u)	150	Dec 2007	11.50	99.50R	-	-	CSFB-Effectenbank
YEN							
Kingdom of Spain	150bn	Sep 2006	3.10	100.07R	3.082	+7(JGB 187)	Nikko Europe
Hamburgische Landesbank★	20bn	Dec 2025	(x)	100.50	-	-	Merrill Lynch Intl
Sumitomo Realty & Dev(y)★	20bn	Nov 2001	2.50	100.00R	-	-	Daiwa Europe
Abbey Natl Trsy Services★	10bn	Oct 2003	2.70	100.30	2.652	-	JP Morgan Securities
Kingdom of Denmark(z,y1)★	10bn	Sep 1998	7.00‡	100.00	-	-	Sanwa International
SWISS FRANCS							
BNDES	120	Oct 2001	7.125	101.40	6.786	-	Credit Suisse
Deutsche Ausgleichsbank	100	Oct 2008	4.00	102.75	3.549	-	Gotthard/Merrill/ZKB
FRENCH FRANCS							
African Development Bank	2bn	Sep 2006	6.50	99.49R	6.573	+17B	Société Générale
Kingdom of Sweden(j)	3bn	Oct 2006	6.625	99.726R	6.657	+17(6½%-06)	ABN Amro HG/CDC
STERLING							
KfW International Finance(s)	200	Dec 2003	7.625	98.982R	7.753	+14(8%-03)	BZW
Fitzwilton Finance(g)	80	Oct 2006	9.75	99.347R	9.856	+175(7½%-06)	Bankers Trust Intl
Morgan Guaranty Trust Co(b)	200	Dec 2003	7.75	99.53R	7.852	+24(8%-03)	JP Morgan Securities
Bradford & Bingley B/S(v)‡	200	Nov 2001	(w1)	99.86	-	-	HSBC/NatWest
Nationwide B/S(w)‡	150	Aug 2001	(v1)	99.85	-	-	HSBC Markets
Britannia B/S(x)	100	Sep 2011	8.875	99.512R	8.951	+88(7½%-06)	UBS
Commerzbank O'seas Fin(A,x)	75	Dec 2001	7.00	99.572	-	-	SBC Warburg
GUILDERS							
Aegon(A)	300	undated	7.25	99.25R	7.346	+80(l)	ABN Amro Hoare Gvtt
Deutsche Bank	250	Oct 2006	6.75	100.108	6.736	+48(8½%-06)	ABN Amro Hoare Gvtt
DSL Finance	250	Dec 2001	5.25	99.898	5.265	+10(6¾%-01)	ABN Amro Hoare Gvtt
LUXEMBOURG FRANCS							
Commerzbank(l)	2.5bn	Dec 2006	(l)	102.65	6.61	-	Crédit-Européen
Republic of Finland(l)	2bn	Dec 2003	8.125	102.70	5.65	-	BGL
ITALIAN LIRE							
Abbey Natl Trsy Services(c,l)	150bn	Apr 2000	8.80	100.805	-	-	Cariplo/Credito Italiano
Deutsche Finance Neths	2000bn	Oct 2026	zero	7.357R	9.088	-	Deutsche Morgan G'fell
AUSTRALIAN DOLLARS							
Republic of Finland★	240	Apr 2000	6.81‡	100.00	6.810	-	IBJ/New Japan Secs
PESETAS							
Exportfinans	10bn	Oct 2016	8.40	100.9161	8.305	-	(m)
CANADIAN DOLLARS							
Rabobank Nederland(g)	100	Dec 2002	7.00	100.10R	6.97	+10(7%-01)	Daiwa Europe
Ford Credit Canada(j)	100	Oct 2001	7.00	100.095R	6.977	+31(7½%-01)	RBC Dominion Secs
NEW ZEALAND DOLLARS							
World Bank	100	Oct 1998	8.00	100.795	7.557	-	Hambros Bank
Inter-American Dev Bank(i)	100	Sep 1997	8.50	100.905	7.53	-	Toronto Dominion Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ◊With equity warrants. ★Unlisted. ‡Semi-annual coupon and yield. R: fixed re-offer price. a) Convertible into Tipco foreign board shares at baht 155. Callable from 19/9/98, subject to 140% hurdle, at par. Puttable on 19/9/01 at 132.564%. Greenshoe: $8.965m. b) Denom: $10,000 +2 wrts. Ex price: Y1,014. FX: 110.4Y/$. c) Callable on 14/10/08 and ever 10 yrs at par. If not called, coupon is reset at the higher of the existing coupon or 85bp over 10-yr DSLs. d) Callable on 8/4/99 at par. e) AT&T Universal Card Master Trust. Legal maturity: Sep 2003. e1) 3-mth Libor +10bp. e2) Class B: $80m, 3-mth Libor +30bp, parR, expected maturity Sep 2001. f) Callable from 20/9/99 at par. g) Callable from 17/9/98 at par. h) MBNA Master Credit Card Trust. Legal maturity: 17/2/04. h1) 3-mth Libor +8bp. h2) Class B issued in US$, privately placed. i) Over interpolated yield. j) Fungible with DM500m. Plus 15 days accrued. k) 5.73% in DM or 6.07% in A$ or 5.73% in US$: issuer's choice. l) Long 1st coupon. m) Joint book-runners: BNA, BSN, BNP and Mutuactivos. n) 3-mth Libor +15bp. o) Repaid in NZ$. p) Oeffentliche Pfandbrief. q) Spens call provision. r) 6% to 15/12/00, then 7% to 15/12/03, then 9%. s) Short 1st coupon. t) MBNA Master Credit Card Trust. Legal maturity: 15/2/06. t1) 1-mth libor +15bp. t2) Class B: $75m, 1-mth Libor +36bp, parR. u) 6-mth Libor flat. v) Separate deal: $20m, 8¼%, 22/9/97, 99.775%. w) Includes DM100m increases at 99.89R and 99.88R. x) Fungible with £100m. Plus 50 days accrued. Callable from Nov 2000 at par. x1) 3-mth Libor +5bp. y) Fungible with £150m. y1) 3-mth Libor flat. First coupon: 5.8125%. z) Callable on 2/10/06 at par. If not called coupon is reset at 180bp over 5-yr gilts. A) Fungible with £100m. Plus 211 days accrued. B) 3-mth Libor +20bp. C) Underlying: Venezuela DCBs due 18/12/07. Includes DM50m increase at parR. Callable on 28/12/01 at par. Note: Yields are calculated on ISMA basis.

هكذا من الاصل

POWER IN ASIA

Urge to reform gathers strength

The need for finance is driving liberalisation, writes Simon Holberton

After a year of consolidation, there are signs that Asia's urge to reform the power sector has gathered fresh impetus. As a result, the way ahead is arguably clearer now for most participants in the industry than before.

Not all countries are using the same road map to reform. Some are still wary of private participation in their power industries, or of privatising state assets, but are still pushing ahead with structural reforms. The majority, however, have accepted that if they want to industrialise they have no alternative but to allow foreign ownership.

Importantly, the clouds hanging over policy towards the power industries in India and China are beginning to lift.

The desire among Asian nations for rapid electrification is as impressive as the capital requirements to finance that ambition are daunting. Final electricity demand in seven of the most important east Asian economies – China, Taiwan, Malaysia, South Korea, Indonesia, Philippines and Thailand – is expected to grow by 8 per cent between now and 2010. This follows annual growth of 6 per cent a year in the period 1980-1992. And this compares with final demand growth in the developed world of between 2 and 3 per cent.

Recent work by World Bank economists suggest that the seven countries will need to spend between $1,000bn and $1,350bn over 1994-2010 to meet the development goals their governments have set their electricity supply industries. Add in the Indian subcontinent and it is easy to arrive at figures in excess of $1,500bn

This demand for capital raises crucial issues of how such development will be financed. Alongside this task, funds from multilateral agencies such as the World Bank group, though vital, amount to little more than a drop in the ocean. Asia's impressive savings rates will also have to be marshalled, and that means embracing widespread reform of domestic capital markets. That will take time; in the interim, western capital in the form of direct or portfolio investment will have to be tapped.

It is the need for external private finance that is in part driving liberalisation in Asia. In some countries it is blowing away understandable concerns about giving up control over industries as vital as electricity supply to foreign interests. But foreign investors are demanding, and getting, more safeguards for their investments. Countries such as the Philippines and Pakistan have gone out of their way to design investor-friendly agencies for channelling investments into their power sectors.

Indeed, the Philippines and Pakistan stand out as the leading countries in their respective parts of Asia.

The Philippines has moved dramatically in the past eight years to restructure and privatise its electricity supply industry. In 1989, Hopewell Holdings, the flagship of Hong Kong entrepreneur Gordon Wu, signed the Philippines' first build-operate-transfer (BOT) scheme for the power industry – a 200MW gas turbine peak load plant known as Novatas 1. Mr Wu's experiences in the Philippines since have not been without incident; however, no one seriously questions the wisdom of the authorities' overall policy towards the industry. Since 1993, when installed capacity in the Philippines was 6,000MW, capacity has grown to nearly 10,000MW.

Today, the Philippines is on the verge of bringing forth Asia's first competitive electricity supply industry. The authorities plan by the year end to begin a two-year phased sell-off of the National Power Corporation in a $5bn privatisation.

The initial sales will be of Napocor's generation assets. Part of the proceeds will be ploughed into the development of the Philippines' national grid. For this reason transmission will be retained in state hands for the time being, although the government's intention is that the grid should also be sold.

Mr Fernando Roxas, head of privatisation at Napocor, says that privatisation seeks to achieve a number of objectives. "We want to make the energy sector more efficient by putting it in private hands; we want to reduce the taxpayer's burden; we want to spread share ownership, and we want to unbundle prices and subsidies in the power sector to make the industry more transparent."

Pakistan presents another road to efficiency. Since 1994 when a new policy which provided for quick project approvals came into force, investment has flowed into the country's power industry. By 1998, capacity will have been boosted by at least 20 per cent to around 12,000MW.

Investors have been offered reasonable returns. They have been promised an average tariff of 6.5 cents per kilowatt hour, which includes some provision for escalation. Imports for plants have been exempted from duties. The Pakistan authorities have allowed projects to go forward whose capital cost is financed by up to 80 per cent debt. Last, but by no means least, the entity which owns the power station enjoys a 30-year tax holiday.

These may seem unduly generous measures, but they have delivered electric power to a country which could not afford to provide it for itself. And the authorities are extending the experiment. Large scale transmission projects are being offered to private investors to build, operate and maintain.

The authorities are, however, facing a severe test. Pakistan's persistent trade deficit is raising questions about the government's ability to finance both the country's growing external energy bills to fuel the power stations it has approved, and meet its obligations with respect to the dollar denominated revenues it has promised developers.

Superficially, Pakistan ought to be a model for India, but is unlikely to be so because of India's federalist and therefore decentralised decision-making structure. Maharashtra's dispute with Enron, the US energy company, caused the world to stop and reconsider India as an investment location. But the shock induced by Enron's difficulties in India last summer has given way to optimism that the world's second largest emerging market for power has turned an important corner.

Enron's Dabhol project now looks as though it will proceed after a painful renegotiation of the original deal. India needs a few successes. As its economy grows so does the gap between electricity demand and supply. This year the shortfall is set to widen to 14.5 per cent.

India's problems are exacerbated by a weak transmission and distribution system. Power losses of 20 per cent because of theft or inadequate transmission are not uncommon in India, while in some areas losses are even higher.

Significantly, the World Bank is turning its attention to transmission. "We lend quite a lot for power generation – we have done so for 40 years," says Mr Harinder Kohli, senior World Bank adviser on East Asian and Pacific Affairs. "For every dollar of generation you need a dollar for transmission and distribution. Indeed, in some countries the bottleneck is in transmission rather than generation."

The power market which the industry is watching most intently is China's. It is undergoing a large scale restructuring, with the operations and regulation being separated. China has kept foreign investors at bay, preferring to keep the ownership of the industry restricted to mainland entities with occasional investment by overseas Chinese investors permitted. This may be about to change.

The awarding of contracts for Laibin B – a 700MW station in Guangxi, south China – will form the basis upon which all future power deals are done in China.

The future of foreign equity participation in China's power industry may well turn on the extent to which foreign banks will accept non-binding guarantees from provincial governments. This will decide whether China graduates from "potentially" to "actually" the world biggest market for independent power.


A hydropower plant in Yunan province. China accounts for half Asia's market Sarah Murray

IN THIS SURVEY

■ **International finance:** by Simon Holberton

Exposure only to partial risk

The institutions are involved with the design of more market-oriented regimes

In May this year a $630m financing for the Uch power project in Baluchistan, Pakistan, was finalised. It marked not only another milestone for Pakistan in its quest to make investment in its power sector as attractive as possible, but it was a landmark for the World Bank and the International Finance Corporation, its commercial lending affiliate.

The financial innovation in the deal was a "partial risk guarantee" from the World Bank. The guarantee covers lenders from a borrower'e default due to non-performance of specific contractual obligations. These include, meintaining an agreed regulatory framework; delivering inputs such as fuel; paying for outputs such as power; compensating for project delays; and currency transfer and convertibility risks.

This guarantee enabled a 15-year $75m syndicated commercial bank loan to be raised – the longest maturity to date for e commercial financing in Pakistan, and it had an important influence on other lenders of more than $450m of additional debt finance.

"There are only so many transactions we can do," says Mr Harinder Kohli, senior adviser on East Asian and Pacific affairs to the World Bank. "We see our loans as a catalyst."

He cites the Philippines as a country where the World Bank used to be a large provider of finance to the generetion business. "We're beginning to see the private sector increasing its involvement in generation, so we can reduce our lending."

There has also been a change in the scope of World Bank finance in the power sector. With the growth in private finance for generation the bank has been paying more attention to transmission and distribution. "In Indonesia, the bottleneck is more in transmission and distribution than in generation," says Mr Kohli who believes this is increasingly the case in other countries as well.

However, while finance is clearly one of the more important roles of the supranational egencies euch as the World Bank it is far from their only, or necessarily most important role. Making a virtue out of their limited capital resources, the supranationals are involved intensively with the design of more market-oriented regulatory regimes in the countries which welcome their activities.

"Even more important than providing finance is the technical assistance we provide to belp reform the energy sector," says Mr Kohli.

Since 1994 the IFC, in particular, bas been working closely with the Pakistan authorities to develop policies designed to foster confidence among foreign investors.

"It has been very successful," says Mr Andrew Bartley, an investment officer in the IFC's power division. "It utilises a 'one stop shop' entity. It is empowered to give epprovals and clearances; before that, developers had to go to e variety of agencies.

"It is an extremely important change. One of the main impediments to power developments in Pakistan previously and oow in India is the large number of clearances needed and excessive interference by local and ceotral government agencies in the minutiae of projects."

Moreover, unlike the Hub project, where the electricity tariff was based on 'cost plus', in projects since 1994, including the Uch project, developers bave been required to bid against a fixed tariff.

"By giving the developer e fixed price you can leave the structure of the project up to the developer," says Mr Bartley.

He points out that the other major step forward since 1994 bas been the development of model documentstion and agreements. "Pakistan demonstrates the value of clear, transparent policies. It has made it easier to push projects through."

The role of supranationals in the power sector is to wean them off direct controls and towards a system of control through regulation. Mr Kohli makes the point in reference to the World Bank in China which is currently in the throes of reforming its electricity supply industry. "The central element of our dialogue with the Chinese is the issue of tariffs. Pricing is the best possible signal you can give the consumer."

The World Bank is working with China so thet tariffs in China can better approximate the long run marginal cost of producing power. The average tariff paid along Chine's coastal provinces ie about 10 per cent to 15 per cent below long run marginal cost. The situation in the interior provinces is different where prices are 30 per cent or more below cost, he says.

The bank has also been helping the Chinese euthorities with the task of separating the regulatory aspects from the state agency – the ministry of electric power – which owns the power stations.

The IFC is also banging this drum.

"Governments have got to get out of the driving seat and assume tbe role of policemen," says Mr Bartley.

"For power sales agreements the real concern should be bow mucb you pay for the electricity, not who the contractor is and bow much it will cost. Governments need to focus on how much they pay for electricity."

PROFILE

An innovative finance package

Banks hold the key to the long-term funding of power stations

While power projects often stretch technological and commercial skills to the limit, the biggest test for many schemes is finding the finance.

Often the financial elements of a package offer as much scope for innovation as the hardware. So it is with the Jawa Power scheme, where construction is just starting at Paiton, on Jawa island, in Indonesia.

Jawa Power, a joint venture between Germany's Siemens, PowerGen of the UK, and Bumipertiwi Tatapradipta, the Indonesian development company, was singled out by the Indonesian government as a key project in its independent power programme.

[illegible]

Stefan Wagstyl

■ **Project finance:** by Louise Lucas

The scent of change in the air

The 144a market could offer a new, encouraging way forward for risk loans

Recent years have been frustrating ones for bankers trying to finance power projects in Asia. China's move to cap returns to foreign investors and withhold foreign exchange guarantees effectively put the potentially biggest power market on ice.

Investors in India were spooked last year when the state of Maharashatra suddenly revoked e contract previously agreed with Enron for the construction of a power plant.

But bankers believe change is in the air. A number of transactions across Asia have been successfully completed, suggesting the needs of investors and governments are beginning to dovetail. China's healthy foreign reserves are luring investors back into the mainland. And a pilot build-operate-transfer model is being tested in Guangxi, one of China's poorest regions.

Possibly more important still are the new pools of capital being accessed. "The capital markets are opening up," says Mr Will Rathvone, head of project finance Asia at Bank of America in Hong Kong. "Before there were only banks, which was a limiting source for transactions, but in Indonesia the 144a market was used for one of the tranches of Paiton II power plant."

The 144a market is a US bond market, with paper sold to a small number of professionals who understand tbe risks - a pool of around 50 insurance companies. The structure differs from thet of a traditional bank loan, where the principle has to be repaid almost immediately after operation starts – thus reducing the amount of money for shareholders. Instead, with a 144a the term tends to be longer (15 plus years as opposed to 12 years) and repayment is usually heavily weighted towards the back end, so shareholders can receive more at the beginning.

Although there have only been e handful of 144a issuances to date, predominantly in Indonesia and the Philippines, most bankers reckon it will become an important source of funds in the future.

There are sdvantages on both sides – just as shareholders receive their payouts earlier (which, given the time value of money, can also mean bigger returns), so, as far as the banks are concerned, it uses up less capital and hence does not require big balance sheets.

This makes it particularly attractive to some of the US banks, which do not have big balance sheets and prefer to be able to turn over their capital obligations as quickly as possible. With 144a's, the banks are only underwriting the issue for a few weeks.

The disadvantage – and one of the key reasons why 144a issuances will not disintermediate the traditional project financiers – is less flexibility. Mr Mark Muldowney, director of corporate and project finance at BZW Asia, says money usually has to be drawn down in one lump sum, rather than in stages as needed to pay contractors; and that being paper sold to US investors "the presence of a major US name in the transaction is not critical, but very important."

Moreover, because of the way the bonds are structured – long term financing with the capital at the end – the creditworthiness of the partners becomes more important. It is partially for this reason that some bankers reckon the market will prove less suitable for China, especially in the poorer provinces, and in India where the state owned electricity companies are often seen as poor credit risks.

Mr Takumi Shibata, president and chief executive officer of Nomura Project Finance in Hong Kong, agrees that the trend will be for more capital market related transactions, but notes that investors will be selective. This is likely to catapult projects in the ASEAN countries to the top of the pile – particularly those in the fast-growing economies of Thailand and Indonesia, and the Philippines.

If the capital markets are seen as unlikely to absorb paper from China power projects in the near term, so too are many of the banks. The China equation contains too many risks for many; moreover, as one project financier says: "China is not the only country trying to attract capital and at this moment in time I'm not sure they offer the best opportunities for capital."

The key problems for financiers of projects in China include:

- the absence of foreign exchange guarantees. To some, this concern has been mitigated slightly by China's stated intention to bring about convertibility of the currency on the current account by December 31, and the country's healthy foreign reserves of $90.8bn (at end July);
- China's legal system, which underpins the contracts upon whicb project financing is reliant. Specifically, the absence of a mortgage law raises a question mark over bankers' ability to repossess mortgaged assets;
- the creditworthiness of the China counterparties. Banks require assurance that the municipal or provincial government is able to pay investors, even if the electricity is not all sold;
- changing goal posts on projects. Flouting bankers' desire for secure revenue streams, China insists on renegotiating tariffs each year, effectively neutering the original "agreement" and raising doubts over the project's financial viability since tariffs or tolls are not simply linked to the relevant costs (such as local inflation) but subject to change;
- and caps on rates of return. It is still unclear if China officially imposed a cap on the returns available to foreigners, but talk of a 15-18 per cent ceiling was sufficient to deter, among others, Hong Kong-listed Hopewell Holdings from pursuing projects in China and instead channel resources into Indonesia, Pakistan and the Philippines

Notwithstanding, Mr Muldowney reckons the 144a market could prove the catalyst for the mainland, which clearly has a need for more electricity: Price Waterhouse calculates thet in the power industry alone new generating capacity of 12GW-15GW per year must be commissioned in order to satisfy an annual demand growth rate of 8 per cent - translating into an investment of close to $100bn by the year 2000.

■ **Taiwan:** by Laura Tyson

Private sector at the door

The dismantling of Taipower is complicated and could be at least a decade away

Taiwan is taking steps to dismantle a long-standing state monopoly on the domestic energy industry by allowing the private sector to participate in power supply and oil refining.

Privatisation of the two government enterprises that monopolise the industry, Taiwan Power (Taipower) and Chinese Petroleum Corp (CPC), is at least five or ten years away. Liberalisation of the oil refining market is proceeding relatively smoothly, and private companies are now allowed to build and operate oil refineries without restrictions.

By the end of 1998, the Formosa Plastics group, Taiwan's leading private petrochemicals concern, will have completed a diversified petrochemicals complex. Curbs on private sector oil imports remain but are likely to be lifted in a few years.

Privatisation of electricity generation however has had setbacks. In 1995, eleven consortia were granted licenses to build the island's first private power plants. These so-called independent power producers (IPPs) were supposed to supply an additional 10,300MW of power when completed, but industry experts say fewer than half of the eleven projects are proceeding smoothly and several may never be built.

Taiwan is under pressure to bring new electricity supply on line quickly. Energy consumption has risen at an average of 6.4 per cent a year for the last two decades. Total installed capacity at the end of 1995 was 21,900MW, and the reserve margin was just 4.7 per cent. This was expected to rise to 5.4 per cent this year, but it remains far below the ideal level of 20 per cent in an isolated system such as Taiwan's, officials say.

Mr Richard Hsu, vice president of Taipower blames difficulties in land acquisition and protests by local residents for the slow pace of energy supply development. "After Taiwan became democratic, the social and political situation changed dramatically," Mr Hsu says. "Environmental awareness became popular and all of a sudden we were facing lots of obstacles. Everyone wants to enjoy the benefits of electricity, but no-one wants a power plant in their back yard."

Protests against the island's planned fourth nuclear power plant have halted construction for years. Earlier this year, opposition lawmakers overturned the plant's budget in a surprise vote in the national legislature.

Mr Yi Hung-ting, secretary general of Taiwan's national energy commission, stresses that Taiwan is a small, densely populated island lacking in indigenous energy resources. "Therefore our policy is to ensure stable supply and to diversify our sources of energy," he says, adding that Taiwan looked to Japan as a model for its energy development policies.

In an effort to expedite construction of power plants, the government opened the market to IPPs last year. From scores of applicants, eleven groups consisting of leading domestic business concerns, mostly in partnership with foreign companies, were awarded licenses to build power plants.

Mr Hsu warns however that this will not solve the underlying problem. "The presumption is that private sector groups should be able to acquire sites and the right-of-way to build transmission lines more easily than Taipower, but in reality they face the same difficulties," he says.

The IPPs say they face another serious problem: money. They say that under the terms of the contract with Taipower – known as the "power purchase agreement" – it is practically impossible to get international financing for the projects. An association formed by the IPPs has retained legal counsel and is currently negotiating with Taipower to make terms more attractive to international lenders.

An adviser to one IPP said the contract was a "one-way street" in favour of Taipower. "We have to guarantee many things but we get no guarantees in return," he says. For example, the IPP must promise to provide a specified amount of electricity to Taipower, but Taipower offers no guarantee of how much electricity it will buy from the IPP. Another problem is that there is no foreign exchange guarantee in the event of large fluctuations in the local currency. There are also no built-in buffers against rises in fuel costs. The government is reluctant however to change the terms of the agreements.

Draft legislation which would deregulate the power industry has been pending in the legislature for a number of years and it will likely be several more before it is passed. Under the proposed law, Taipower's monopoly on electricity generation, transmission and distribution would be lifted. Taipower hopes that its present responsibility for ensuring power supply will be removed as well. But the government may decide to extend Taipower's responsibility for another ten or fifteen years until the industry has stabilised and the rules of the game are established.

"In case the independent power producers cannot come on line quickly enough, Taipower is still left with the responsibility to supply the country's needs," says Mr Hsu. National security takes priority over market forces. Not until the reserve margin is significantly improved will the market be opened to free competition, he says. Only then will Taipower will be free to operate on a more commercial basis, with each business unit being treated on its own economic merit.

Privatisation is also a prerequisite to greater efficiency and free competition. "We are so heavily regulated. There are too many strings attached. We just could not operate as a business enterprise," Mr Hsu says. Whether Taipower will be privatised as a whole or broken down first remains to be decided.

■ **Hydroelectric power:** by Frank Gray

A surge of consumption

Environmental rather than cost factors have caused most controversy

The consumption of hydroelectric power in Asia is experiencing double-digit growth, and looks like continuing this way well beyond the millennium, thanks to major hydroelectric schemes planned or under way in China, India, Nepal, Malaysia and Laos.

According to BP, in its annual review of world energy, Asia consumed a record 45.2m tonnes of oil equivalent (mtoe) in hydro-electric power last year, a rise of 10.3 per cent over the year before. This rate of growth is expected to continue, which means that, by 2000, Asia's hydropower consumption could rival that of North America, the world leader at 56.4mtoe.

These projects are, in general, state-sponsored, such as the gigantic Three Gorges scheme on China's upper Yangtze River, but increasingly private sector partnerships and funding are being mobilised to support these undertakings. In addition, increasing attention is being given to private sector construction of small, run-of-river hydropower schemes in such mountainous areas as northern Pakistan.

The drive for more hydro projects is population-led – China and the Indian subcontinent have a total population of 2.5bn, ten times that of the US. But at 300,000MW of capacity, the two countries have just half the electricity supply of the US.

Despite the high capital costs and long construction times, hydropower schemes are a subject of constant analysis in those Asian countries with big rivers. A UN study says that China has a technically feasible hydropower capacity of 378,500MW – at present, about 30 per cent of it's total 215,000MW of capacity is hydropowered. India has a further 80,000MW of capacity – 25 per cent of its generation of 85,000MW is from hydropower.

But it is environmental rather that cost factors that have embroiled most of Asia's hydropower schemes in controversy – some of them sensational.

China's Three Gorges 18,200MW hydropower scheme – by far the largest in the world – has been refused support from the US Export-Import Bank and Japan's Export-Import Bank (Jexim). The US Exim's refusal is based on concerns about resettlement of those displaced (estimated at 1.1m people at least), water treatment, danger to wildlife and deforestation. For similar reasons no support is expected from the World Bank or the Asian Development Bank. This is putting pressure on the Chinese authorities to institute tariff rises and to raise bond and share issues to raise financing for the Yn240bn ($28bn) needed to build the scheme and acquire western turbines.

The World Bank has stressed it is not abandoning backing for big hydropower schemes – it has provided $780m in funding for both phases of the 3,300MW Ertan project on China's Yalong River. The ADB also says it will back big hydro schemes providing they comply with bank environmental, safely and operational guidelines. It lent $170m for the Mianhuatan hydropower project last year.

Rivalling Three Gorges in controversy is the 2,400MW Bakun hydroelectric project to be built in Sarawak. The $5.5bn schema is being sponsored by Ekran Berhad, owned by timber entrepreneur Ting Pek Khiing. The scheme was conceived in the 1970s but was shelved in the 1980s as impractical. Ting restored it, thanks to a vital power purchase agreement with Tenaga Nasional Berhad, the state-owned power utility of Malaysia, which has agreed, under pressure, to buy Bakun's power output. That power output will be supplied via a record length 670km subsea cable, to be owned by the project consortium.

The remoteness of the project, the deforestation it will cause, and the fact that it will create a reservoir the size of Singapore have embroiled Ting in courtroom battles with environmentalists. ABB, the European consortium, has been named turnkey contractor, but it has yet to sign a firm contract pending the outcome of the courtroom disputes. While Bakun is technically a private sector scheme, it is so dominated by one individual that is is not considered a model for privatisation.

Bakun will be the second controversial hydropower project scheme for Malaysia. Tenaga Nasional will soon take delivery of the 400MW Pergau Dam scheme, nearing completion in northern Malaysia. This scheme benefitted from a record £234m in UK concessional finance from the Overseas Development Agency.

The World Bank nervousness over big hydro projects stemmed from the row that arose over its sponsorship scheme of the 201MW Arun III hydropower scheme in Nepal. The Bank had pledged $175m in backing for the dam, but shelved the plan last year because of doubts that the Nepalese economy could support it.

Nepal's hydropower potential is also closely watched by India, which needs the output. The two countries recently signed a treaty for the development of the Mabakali River, under which India will treble its offtake to 70mkWh from the Tanakour power dam.

Last month, Australia's Snowy Mountains Engineering Corp called for "expressions of interest" from Indian customers in lifting power from the proposed 750MW West Seti River near the Nepal-Indian border. The project is subject to an environmental impact assessment.

The ADB contributed a $161m, two-tranche loan to Nepal to help finance the Kali Gbandaki hydropower project and the Himal power project, which will boost Nepal's power supplies and provide it with capacity to sell to India.

India's environmental problems, centring on dislocation of tribal peoples around the Narmade Dam project, appear to be easing. The 1,400MW multi-dam project will cause the displacement of 100,000 people. The World Bank withdrew funding for the scheme several years ago after an international furore, but the New Delhi government said it would press ahead with the scheme.

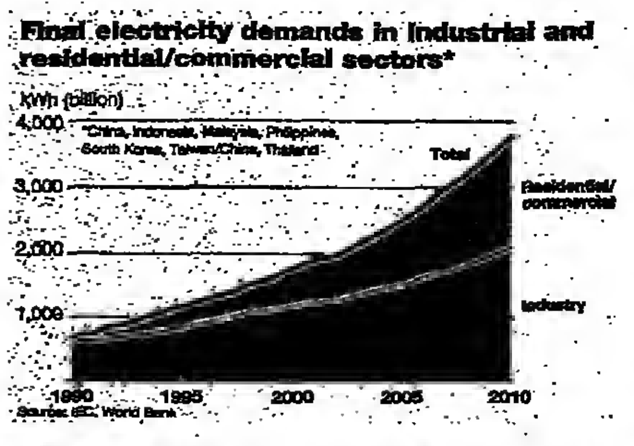
Chief ministers from the four states affected by the project – Gujarat, Rajasthan, Maharashtra and Madhya Pradesh – have agreed to reduce the height of the dam to 436ft from 455ft, thereby lowering the potential reservoir level and reducing the impact of the dam on local peoples.

Meanwhile, the Central Electricity Authority recently gave approval in principle for construction of the 1,107MW Alamatti dam in Karnetaka State, to be built by the private sector Chamundi Power Corp. The project is still troubled by disputes over reservoir levels and water supplies to neighbouring territories, and final approvals still need to be agreed.

Thailand itself has virtually abandoned all major dam projects on its own territory because of environmental opposition but it is counting on supplies from landlocked, and underpopulated, Laos. Two of these are the $280m, 210MW Theun-Hin dam and the $1.4bn Nam Theum 2 project. Thailand's Electricity Generating Authority (EGAT) has finalised a 25-year agreement to buy power from the plant, which is being backed by the ADB and is sponsored by Electricité du Laos (EdL), MDX of Thailand and Nordic Hydropower. The World Bank proposes to help fund Nam Theum 2, but will not go ahead until the Bank is satisfied that all alternative sources of electricity supply have been examined.

Frank Gray is editor of Power in Asia, an FT energy newsletter

Final electricity demands in industrial and residential/commercial sectors*



■ **Equipment sales:** by Stefan Wagstyl

Hopes and prospects

The best strategy is a network of partners which includes other manufacturers

For manufacturers of power engineering equipment, Asia is the land of hope and disappointment. Hope because it is seeing the greatest growth in demand for electricity and for generating equipment. Disappointment because orders for that equipment are often secured only after long delays and on tough terms.

Asia accounts for about half the world's expected demand for power generation equipment, according to equipment makers. Projections of Asian countries' electricity needs suggest this could mean up to 1,000,000MW of new capacity by the year 2010, worth perhaps $1,100bn to equipment makers. The trouble is that this glowing prospect has attracted all the leading international equipment makers to the Asian market, giving the customers the whip hand in determining prices.

The manufacturers have made things worse for themselves, by accepting orders today at low or non-existent margins, hoping to recoup profits in the future from servicing and spare parts. After seeing prices fall by 10-15 per cent a year in the 1990s, makers are hoping that the market could begin to stabilise in 1996.

After years of complaining about overcapacity in the industry, they are finally taking action. Westinghouse of the US earlier this year closed its factory at Pensacole, Florida, with the loss of 650 jobs and transferred output mainly to its plant at Charlotte, North Carolina.

Westinghouse says no capacity has been lost because it is simultaneously expanding its facilities at Charlotte, but rival makers say it will reduce Westinghouse's overall production capabilities.

In the UK, Rolls-Royce announced that it was putting up for sale its large steam turbine business, including Parsons, the turbine maker and one of the legendary names of British engineering. While Rolls-Royce said it was confident of finding buyers, it set aside £248m to cover possible closures and the loss of 2,500 jobs.

These moves come in response to the financial pressures imposed by tough competition. Last year Westinghouse, which is one of the top six makers dominating the industry, posted a $207m loss in its power systems division, including write-offs. The other five integrated manufacturers – GE, ABB, Siemens, the Anglo-French group GEC Alsthom, and Mitsubishi Heavy Industries – saw their margins squeezed. Only ABB increased its declared profits from power engineering – by just 4 per cent.

The financial performance this year is expected to be slightly improved better due to further cost-cutting. For example, GE is embarked on a major overhaul of its power systems division following the sudden replacement last year of its president by Mr Robert Nardelli, the former chief of GE's transport equipment business. Mr Nardelli's mission is to improve returns at the world's biggest power generation equipment maker.

Also, there are some signs that companies are trying to raise margins slightly in bidding for contracts, notably in China, which accounts for about half the Asian market.

Chinese bidding contests have been particularly fierce, because all the large integrated groups have seen the country as their top market and have been willing to sacrifice margins for establishing their presence. Each group has blamed its rivals for driving prices to sub-economic levels. This year, they are trying to edge prices higher. They may be succeeding but it is too early to tell.

At the same time as competing on price, the makers are strengthening their ties with the region by building factories and establishing partnerships.

For example, ABB has this year announced the building of a power equipment factory in Indonesia.

In India, ABB and Siemens are both expanding substantial existing manufacturing operations, in response to the emergence of independent power projects.

In China, Westinghouse last year won a hotly-contested auction for a joint venture with Shanghai Electric Corporation, the country's largest power plant maker. The group plans to invest $100m in modernising the Shanghai factories. GEC Alsthom has a joint venture in the northern city of Tianjin, making equipment for hydroelectric schemes, and another in Suzhou manufacturing switchgear. The group also has a joint production agreement with BZD, a leading turbine maker in Beijing.

Those companies which show the most commitment to individual national markets tend to get the rewards. Siemens is celebrating its success in the $1.6bn Jawa Power project for a 1,220MW privately-financed coal-fired station in Indonesia. The German group is both an equity investor and the main equipment supplier.

In Malaysia, ABB beat rivals to the controversial $5.4bn Bakun hydroelectric dam scheme, which will be carved out of the Borneo jungles.

In India, work was expected, after the government's final go-ahead, to resume on the Dabhol independent power project near Bombay, where GE is the main equipment supplier.

In China, manufacturers are lining up for what will be the biggest scheme of all – the Three Gorges hydropower project, which could create orders worth $30bn. The potential bidders include a consortium led by Siemens and GE Canada, a second headed by ABB and GEC Alsthom, and a third led by Mitsubishi Heavy Industries.

While the risks in becoming involved in such huge projects are big so are the potential rewards. For equipment suppliers, the name of the game is to establish a close rapport not only with potential customers but also with possible partners, including other manufacturers. This spreads the technical and commercial risks whilst still leaving the manufacturer with direct access to the markets.

■ **Nuclear power:** by Frank Gray

Growth rate powering ahead

Despite the demand for new units, this energy sector still suffers from a bad image

Asia now stands out as the single most important region for growth in the nuclear power sector. This observation was made to delegates at the recent annual meeting in London of the Uranium Institute, the nuclear sector's global trade organisation.

According to Mr. John Taylor, chief executive of British Nuclear Fuels, world nuclear capacity is expected to increase by 10 per cent to 15 per cent by 2010, but in Asia it is expected to double.

He cautioned that the sector required long lead times to select sites and gain approvals, which meant that, despite growth in Asia, the world share of energy supplied by nuclear by 2010 would decrease from 7 per cent to 6 per cent.

South Korea plans to boost its nuclear units from 11 to 27, with the three-unit Wolsong complex to go on line between the year-end through 1999. Indonesia could start construction of its first reactor by 1998.

China now has three operating reactors and 13 more planned, led by the recently approved two-unit French-built complex at Ling Ao, north of Hong Kong.

Taiwan recently decided to boost capacity from six reactors to eight with a go-ahead to General Electric of the US to develop a site on the northern tip of the island.

According to Tokyo Electric Power, Japan's capacity now stands at 49 reactors – 30 per cent of all power in Japan comes from nuclear reactors – with four either having reached "criticality" or under construction and a further six being actively planned.

By comparison, Europe, which has 215 nuclear reactors, about half the world total, will see 13 new units completed in the next three years with a further six planned for completion after the millennium. After that the outlook is flat, with nothing new planned for the Americas, the UK or Germany and an actual phasing out being considered by Sweden, thanks to the still-resonant alarms of the Chernobyl disaster in 1986 and the Three Mile Island scare in the US in 1977.

Mr Taylor's observations about Asia are further buttressed by the fact that Thailand is once again actively considering nuclear power as part of its long-range energy plan. Nuclear power was considered several years ago but was "permanently" suspended. It re-emerged in July with an announcement that the Thailand cabinet had appointed a 21-member committee to examine the issue. What is being considered is the installation of a 6,000MW complex. Such a study would take several years and, if nuclear is given a go-ahead, nothing would materialise in terms of a firm commitment before 2000.

Nevertheless, Thailand's re-entry into the Asian nuclear debate means that it now joins Indonesia as a potentially new participant.

The Jakarta government has indicated that construction work on the country's first reactor could start by 1998, with first power from a proposed 1,800MW complex by 2004. The optimism is based on a feasibility study by Newjec, a Japanese consultancy, which favours a site for the complex on the Mt Muria peninsula in central Java.

Officials say the Mt Muria site could be suitable for up to 14,000MW.

Nuclear reactor status and net power*

	Operating** No.	Operating** MW net	Critical*** No.	Critical*** MW net	Not operating No.	Not operating MW net	[illegible]
China	3	2,080	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
India	9	1,826	-	-	1	187	6
Pakistan	1	125	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Korea	11	9,120	-	-	-	-	5
Taiwan	6	4,884	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US	109	99,129	-	-	1	1,065	-
France	56	58,7[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	50	39,617	2	1,557	2	-	2
UK	35	11,908	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

*at July 12 1996 **connected to grid ***criticality achieved but not yet commercial Source: The U[illegible]

Indonesia's National Atomic Energy Agency (BATAN) sees active nuclear capacity of 7,000MW by 2015, rising to 14,000MW by 2020. Nuclear, by then, would account for 20 per cent of all Indonesia's power capacity.

Various consortia are fighting for position in the race for Indonesia's first complex. They are: Westinghouse/Mitsubushi/Samsung; Atomic Agency of Canada; GE/Hitachi/Toshiba/Mitsui; ABB/Korea Electric Power; Framatome; and Siemens.

The nuclear programme still requires formal government approval - it is being sternly resisted by the Indonesian Forum for the Environment, which questions the safety of the Mt Muria site and the country's ability to observe the intense safety and operational standards required of the nuclear sector. The group is concerned too that the government has resisted any public debate of the issue.

Nevertheless, officials say that an Indonesian and possible Thailand go-ahead may encourage other Asian developing nations to consider nuclear power. Until China came aboard with its own Qinshan 300MW complex in 1993and the Anglo-French complex at Daya Bay, the only other example of nuclear was the ill-fated Westinghouse-built Bataan complex in the Philippines. The site was mothballed in 1986 after the fall of the Marcos government and is being prepared for conversion to a 1,500MW gas-fired power complex.

Delegates to the Uranium Institute's forum were reminded that the sector still suffers from a bad image. "The demand for 'safety' measures and a constant tightening of the regulatory position has raised nuclear generating costs," said Mr Taylor.

"Indeed, the feeling that regulations may continue to become more restrictive has raised perceived risks about the long-term costs of decommissioning and the treatment of wastes."

The image problem emerged recently in Japan, when a local referendum in the northern town of Maki resulted in a "no" vote in reaction to a proposal to build a nuclear power plant in the town. Anti-nuclear campaigners say that the referendum should be construed as a verdict on Japan's aggressive nuclear construction programme. In addition, five other local governments have already passed bylaws to hold referendums on planned nuclear plants.

Prime Minister Ryutaro Hashimoto said that Japan had to consider nuclear as a main power source "given that we have no alternative."

Frank Gray is editor of Power In Asia, *an FT energy newsletter.*

■ **Indonesia:** by Manuela Saragosa

Demand whets private sector interest

The award of contracts is not transparent but on a project-by-project basis

There are some valuable lessons to be learnt from Indonesia's experience of introducing private companies into power generation. Ever since the privatisation program for power generation started in 1990, solicited and unsolicited projects have poured into the country.

Indonesia is estimated to need about $11.5bn in private power investment for power sector expansion over the next ten years and investors' appetites have been whetted by the rapid growth in energy demand.

Industrial demand has been growing at about 25 per cent per year and with a population of nearly 200m, the state electricity utility PLN's installed capacity of 14,970MW, and low per caput consumption of 380kWh per year, rapid demand growth is expected to continue well into the future. "The role of [private] power projects will become significant from 1998 onwards and will be growing rapidly in the years thereafter," says Mr Djiteng Marsudi, PLN's president.

Brownouts in urban centres have mostly become a thing of the past. But industry executives warn that unless PLN works rapidly over the next few years to improve its transmission and distribution system, the time and energy being devoted to getting private power projects off the ground could prove futile.

Industry analysts say many private power projects which have been finalised are not necessarily the most efficient or cost effective, raising questions about PLN's ability to survive its obligations to buy the electricity they will generate.

The closest private power projects come to a government guarantee of PLN's obligations is a so-called "soft-comfort" letter from the ministry of finance which states that PLN, as a public utility, is supposed to buy electricity from private power plants. That satisfied financiers who were probably aided by the belief that the government will not allow the cash-strapped PLN to be declared insolvent.

In addition, the system of awarding contracts for projects is not transparent – competitive bidding is rare – and there are hurdles to finalising contracts which are difficult to overcome without a politically well-connected local joint-venture partner. Rather than establish a regulatory framework within which the government decides which projects are viable, implementation has proceeded on a project-by-project basis. "Deals are awarded on the basis of who you know," says one industry executive.

Paiton I, the $2.5bn coal-fired 1,230MW project awarded to a Mission Energy-led consortium of Mitsui & Co, GE Power Funding and Batu Hitam Perkasa, in which the prominent businessman Hashim Djojohadikusomo has a stake, was Indonesia's first private power "experiment".

Negotiations to finalise its financing and conclude a power purchase agreement (PPA) with PLN dragged on for two and a half years. Paiton I set out that PLN must buy at least 83 per cent of the plant's capacity whatever the demand for electricity - termed a take or pay clause - at a PPA rate of $0.0856 per kWh for the first six years, coming down eventually to $0.0554.

The project was aimed to set a benchmark for the industry, although many criticised it as being too large and complicated. PLN has since been successful in bringing prices down in PPAs agreed, partly because competition for projects has been so intense.

But it is Hong Kong's Hopewell Holding's unsolicited offer for a power plant in east Jawa which perhaps best demonstrates the problems of a project-by-project approach. Hopewell's CEPA fell out with its original joint-venture partner, failed to secure a coal supply agreement and ran into problems with land acquisition for the site of their plant, forcing the project to be delayed. Recently PLN, which considered CEPA's PPA too expensive, asked the government to cancel it.

But CEPA has powerful joint-venture partners and even President Suharto has urged a quick solution to the project's problems. PLN and CEPA may well go back to the negotiating table to secure a new PPA. The $1.8bn power plant, to be called Tanjung Jati B, will have two 660MW generating units, was originally set to sell PLN electricity at $0.0735 per kWh. That has reportedly been lowered to $0.0639 but the new offer has yet to be made in writing.

Even if these kinds of projects eventually come on stream, there is concern that PLN will face transmission bottlenecks. Unless investments are made to resolve these bottlenecks and if demand growth is less than expected, PLN's take-or-pay contracts will force the cash-strapped organisation to buy power from private plants while reducing generation at its lower cost hydroelectric and coal-fired plants.

PLN has capital expenditure requirements of around $3bn to $4bn per year, part of which is earmarked to come from cash raised by publicly listing the company's two power generating units for Java and Bali – Genco I and Genco II – next year.

Critics say that as the power sector is privatised, PLN must become a commercially viable operation. Yet as long as electricity tariffs are set by the president, this is difficult. At present the tariff structure is uniform throughout Indonesia with cross subsidies between regions and does not reflect the cost of providing the service.

PLN's Mr Djiteng says the uniform tariff is part of PLN's social mission necessary to "unite the country" – Indonesia, after all, is not a homogeneous society. Critics retort that no-one has ever determined what PLN's cost of service is in each region so that it is unclear what subsidies the state-owned utility can afford.

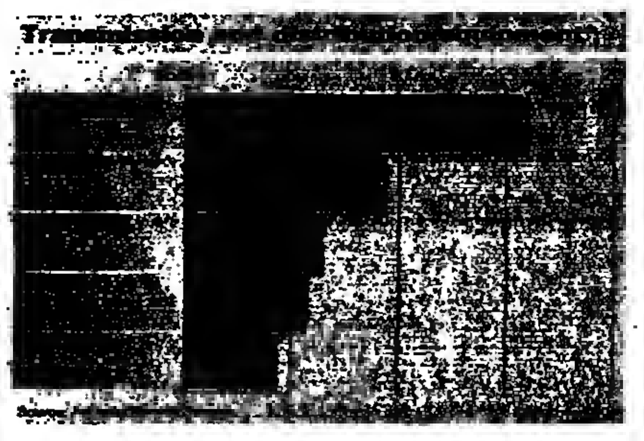
■ **Transmission and distribution:** by Simon Holberton

Putting right a faulty key connection

Pakistan has been radical in opening its grid to foreign investment and ownership

Full energy potential is held back by poor power networks

Tony Andrews



Transmission and distribution, two critical areas of any countries electricity supply industry, have been the poor relation in Asia's headlong rush to modernise its power industry.

While investment in generation remains the key priority for Asia's governments, there are signs that some governments are beginning to address the needs of their transmission and distribution systems as well.

Inadequate transmission and distribution systems can prevent countries from realising the full potential from new generation assets, thereby raising the implicit cost of those investments.

The capital requirements for these parts of the industry, though dwarfed by the needs of generation, are daunting. A recent World Bank study* estimates that over the period 1994-2010 seven of East Asia's fastest growing countries – China, Indonesia, Malaysia, Philippines, South Korea, Taiwan and Thailand – will need to spend between $265bn and $355bn (in 1992 dollars) on transmission and distribution networks if they are to meet the electric power demands of their economies.

This is a demanding timetable and it is highly unlikely that the countries in question will be able to finance that investment from their own fiscal resources, especially China, which accounts for more than a third of the total required by the seven. Yet private finance for transmission and distribution faces a number of difficulties.

It is often regarded as the "strategic" element in the electricity supply industry, best kept in public ownership. This has meant there has been an absence of legislation designed to regulate the activities of transmission and distribution, and an absence of policies designed to encourage outside participation in those activities.

In addition, this is closely allied to the fact that most of the focus and advice from supranational agencies, such as the World Bank, has been concentrated on introducing private capital into generation.

There are, however, signs that Asia is beginning to open up transmission and distribution and experiment with different ways of achieving the same outcome: a robust and secure transmission network for power. Pakistan, Malaysia and Indonesia are looking at ways to involve foreign capital directly in the ownership and management of transmission systems while the Philippines, one of the first in Asia to harness foreign capital for generation, has decided to retain transmission as a national asset for some time after it privatises its entire generation industry.

Pakistan is perhaps the most radical in pushing back the frontiers of what is possible. In 1994, it introduced laws which streamlined the approval and evaluation processes for independent power projects. Now it is opening up its high transmission grid to foreign investment and ownership.

National Grid, the owner/operator of the electricity grid in England and Wales, is the lead company in a consortium, the Indus Grid Company, which will build, own and operate the Indus grid project. This project consists of a 1,390km single circuit 500kV overhead lines, four new substations and five substation extensions. The Indus project has an estimated cost of $700m and is due for completion in 1999. National Grid and partners bid for the 30-year concession knowing that the tariff they would earn from the system would be payable in US dollars.

Mr Bill Hull, international marketing manager for National Grid, says that the returns that can be earned by the Indus Grid Company are similar to those which can be made from other private power projects. "Pakistan has led the way," he says. "They have the legislation in place to let this sort of investment happen."

Malaysia is also looking to involve private finance in transmission. For its controversial Bakun hydroelectric power project in Sarawak, east Malaysia, it is offering the lead generator the opportunity to control 1,330km of 500kV (of which 670km is submarine cables).

Some are concerned that the private ownership of this line could impede the development of a "national" grid in Malaysia. The regulatory authorities have yet to determine whether the owner of the line will have to offer open access on a non-discriminatory basis to other generators which might wish to connect to it.

Elsewhere in south east Asia, Indonesia is looking at involving private finance in some transmission activities as well. Since 1985 transmission has been open to private investment but to date the main action has been in independent generation.

The government is currently assessing proposals but these are understood to be the connection of independent power projects to the existing grid, operated by PT.PLN (Persero), the national power company.

The case of the Philippines offers an altogether different perspective on the evolution of policy in south east Asia. The Philippines was arguably at the forefront of moves in the late 1980s to all completely independent power projects. It is planning to take matters a step further by privatising virtually all generation in the country as part of a break up of National Power Corporation.

Under current plans, however, Napocor will retain control of the Philippine grid and related substation facilities. It will also operate and maintain the high voltage system, including grid interconnections. It has a capital expenditure programme of some $3bn which it will invest over the coming 10 years.

The privatisation of transmission – partial or total – is some way off for the Philippines. But the authorities can envisage a situation in the future where separate entities take over the operation and management of the grid, and the co-ordination of supply.

**Masayasu Ishiguro & Takamasa Akiyama, "Electricity demand in Asia and the effects on energy supply and the investment environment," World Bank International Economics Department Commodity Policy and Analysis Unit, December 1995.*

■ **Malaysia:** by James Kynge

National blackouts no longer a joke

It is likely that capital spending will be above Tenaga's previous predictions

Mr Ani Arope, the former chief executive of Malaysia's national power utility Tenaga Nasional, was known for his sense of humour. One of his self-deprecating jokes was to say that TNB, Tenaga's acronym, stood for "Total National Blackout". But as he retired last month to make way for a younger successor, Mr Ahmad Tajuddin Ali, Malaysians said they were hoping that TNB would now mean "Tajuddin No Blackouts".

Reducing the number of outages Malaysia suffers is without doubt the overriding concern of Mr Tajuddin and the government which appointed him. The August 3 peninsula-wide, 16-hour blackout which hastened Mr Ani's departure from Tenaga was described by Dr Mahathir Mohamad, the prime minister, as a national shame. It was particularly embarrassing because the prime minister had just launched a drive to attract foreign electronics, software and media companies to invest in a vast high-technology project near Kuala Lumpur.

On his first day at work on September 2, Mr Tajuddin made it clear that his priority would be to restore Tenaga's reputations, minimise outages, and, as far as possible, keep electricity tariffs low so as to enhance the competitiveness of Malaysian industry and keep the country attractive to foreign investors.

Tenaga's new boss said he recognised that ensuring greater security in the supply of electricity would increase operating costs, but this was a price which had to be paid.

In a surprise move, he said that the company would not necessarily push the government to grant it an electricity tariff increase early next year.

Industry analysts had widely expected that Tenaga would actively push for the tariff hike but Mr Tajuddin said that he would do so only if he was satisfied that all measures had been taken to reduce costs and enhance efficiency in his organisation of some 24,000 employees.

It is not altruism which is driving Tenaga. The company is anxious to please mainly because it is aware that the government is deciding whether or not to end its transmission and distribution monopolies as a means of avoiding future blackouts. Several of five Independent Power Producers (IPPs), which were given permission to set up following a major blackout in 1992, have expressed interest in taking on a role in transmission and distribution.

Some 34 per cent of the country's projected total electricity sales of 38,700GWh in 1996 were expected to be generated by the IPPs – a sharp increase from 1 per cent in 1994.

A government decision on the future of Tenaga's remaining monopolies is not expected until the end of this year, by which time it will have studied a review on transmission problems currently being carried out by the National Grid Group, a UK power company.

But whether Tenaga's monopolies are broken or not, it is likely that the blackout will spur capital expenditure in excess of the company's previous predictions.

For the three years until August 31 1998 Tenaga has planned to spend M$6.1bn to raise its generation capacity by 2,054MW, M$9.5bn on transmission and M$5.3bn on distribution.

Most of the expenditure is set to go on upgrading transmission lines by overlaying a 550kV (kilovolts) grid parallel to the existing 275kV grid, some of which has been in service since the 1970s.

Phase 1 and 1A - to lay the new gridlines up and down the western part of the Malaysian peninsula - are to be completed by the end of 1997. But it was on the eastern seaboard, at a power station in Terengganu state, that the August blackout originated. A power surge tripped a switch which then triggered emergency closures in all power stations across the peninsula.

Tenaga officials said that work to upgrade transmission lines on the eastern seaboard could be accelerated. Mr Tajuddin also made clear that some overloaded substations will need to be revamped. He said that Malaysia needs to install equipment which localises power failures and prevents the closure of one plant causing a cascade of shutdowns across the country.

Malaysia has successfully overcome the power shortages which led to the 1992 blackout. It now has a considerable power surplus but with demand predicted to grow at 15 per cent this year and 14 per cent in 1997, new capacity is being planned.

The Pergau hydroelectric power station, due to come fully on stream in mid-1997, is an example of the country's desire to chart a course away from gas-fired generators toward cleaner, cheaper power.

Built with a soft loan from the British government, Pergau is designed as a peaking plant to supply electricity for 2-3 hours a day at peak times. Its four 150MW turbines have the ability to start generating almost in the instant that they are required and, unlike thermal generators, maintenance costs are expected to be minimal. Pergau, located in the mountains of the northern state of Kelantan, will be operated remotely from a lowland control centre.

Another hydroelectric plant, the huge Bakun dam deep in the forests of Malaysian Borneo, is also expected to be a cheap producer. Mr Ting Pek Khiing, who is managing the dam's construction, says he expects the production cost of electricity from the dam will be 2 Malaysian cents per kWh.

Transmission costs are, however, expected to be much higher. Tenaga has agreed to pay 16.5 cents per kWh for Bakun's electricity during the dam's first five years of operation and 17 cents for the next 30 years.

Mr Ting says that Bakun, which is scheduled to start generating some of its 2,400MW capacity from 2002, will not require debt financing. He said this month that he is confident that the listing of the Bakun Hydro-Electric Corp at the end of this year will provide all of the necessary capital to pay for the M$13.6bn construction costs.

Industry analysts, however, regard this as highly unlikely and foresee a large debt requirement for Bakun. But it may be difficult to raise the necessary loans because of the remaining uncertainties and risks inherent in the project.

Bankers said they are particularly wary of the plans to transmit some 70 per cent of Bakun's output down a 650km undersea cable- the longest in the world by far. Some observers wonder if such a long cable can be built, while others think that it may be prone to mishap or possible sabotage. Some bankers say privately that lending to the project may not be forthcoming unless the government guarantees the debt.

The Zurich-based, Swiss-Swedish Asea Brown Boveri group and CBPO of Brazil beat off bids from more than 40 companies to win the engineering procurement and construction contract to design and build the Bakun dam. ABB has also been charged with sub-contracting the cable-laying work, a government official said.

■ **India:** by Sunil Saraf

At last, the sell off gets under way

After the Dabhol dispute, power authorities will bargain hard over electricity tariffs

The privatisation of India's electricity supply sector is now starting to get under way after five years of heated political debate and a narrowly averted calamity over the Dabhol power project sponsored by Enron Development Corp of the US.

The debate has centred on such themes as electricity tariffs – an emotive issue in India where power subsidisation is widespread – government guarentees against default, capital costs, the use of imported versus domestic fuel supplies, and concerns about foreign ownership in the power sector.

Despite the arguments over electricity privatisation, no proposal has actually come to a dead end; many developers have been prepared to wait for up to three years for projects to be approved, simply because of the scale of India'e electricity requirements.

Peak power demand has been rising sharply. It climbed by 1.9 per cent in 1993-94; 4.8 per cent in 1994-95; 6 per cent in 1995-96; and is expected to soar by 20.7 per cent this year to 78,655MW. Long-term projects have shown peak demand at 95,800MW in 2001-02, 130,000MW in 2006-07 and 176,700MW in 2010-12.

The gap between demand and supply is also widening. It was 7.1 per cent in 1994-95, rising to 9.2 per cent in 1995-96 and heading for 14.5 per cent this year. Demand this year will reach 416.2bn kWh against an actual supply of 356.8bn kWh. According to the power supply forecaets of the Central Electricity Authority (CEA), India will need 554.7bn kWh in 2001-2002 and 726.1bn kWh in 2004-05.

The supply problem is complicated by low use of capacity, just 63 per cent, and high transmission and distribution losses. These are running at about 20 per cent this year; the figure is eeveral dozen percentage points higher when one takes into account faulty billing procedures in the state-run utilities.

Analysts point out that 95,000 villages have no electricity. Consumption per head is 318kWh per year, among the lowest in the world (Singapore's is 5,778kWh). To close the gap, India would have to add 130,000MW in the next ten years beyond 1997. Existing capacity is 83,000MW.

These targets are well beyond the range of federal and state government power authorities and governments. Their enterprises cannot yield more than 40,000MW. As a result, this means that the balance must come from the private sector.

To this and, energy authorities are now either examining or inviting proposals from private project sponsors for 75,296MW of new capacity. The projects would be built on a build-own-operate basis, in which the private sector would finance the schemes through revenues from electricity sales.

A recent offer has come from Rajasthan state, which wants to hear proposals for the supply of a 150MW power station by the end of September. Tamil Nadu state is calling for the construction by the private sector of 20 liquid-fuel-based power stations, each of 100MW capacity.

Even the central government'e Power Grip Corp is inviting proposals for a 2,184MW power station tied to a 10m tonne per year coal mine in Bihar state.

Private sector sentiments are once again high with the return to construction of the two-phase, 2,000-plus MW, naphtha/LNG-fired scheme at Dabhol in Maharashtra state which ran foul last year of differences between etate and central government authorities over privatisation. Despite the costly suspension of the scheme, the renegotiated deal now appears back on track, which is encouraging to other foreign companies, initially put off by the Dabhol debacle.

The Dabhol dispute has prompted India's power authorities to drive a harder bargain with developers on the issue of electricity tariffs.

Delhi has also said it will end the custom of providing counter-guarantees (sovereign risk guarantees) to developers beyond the nine projects, inclnding Dabhol, initially designated for this cover. This will mean more resourcefulness by developers in securing credits to fund independent power schemes – a difficult challenge given the small size of India's debt market.

Allied to this is the difficulty for the private sector of securing guaranteed fuel supplies for power schemes. India's fual-delivery infrastructure, mainly coal, is inefficient. This has prompted some developers to seek approval for imported coal – which comes in at a premium. And coal-handling facilities at India's ports are inadequate.

The same problem applies to imported gas. India is locked in talks with numerous Middle Eastern countries such as Oman, Qatar and Iran for piped gas. The LNG option, as proposed by Enron for Dabhol, is being keenly watched as an alternative

The need to secure offshore borrowings will also apply to electricity transmission and distribution, which has euffered from lack of public investment. It has been estimated that the transmission sector needs $16.5bn in investments between 1997-2002.

India's showcase project is in Orissa state, where the state government is starting to withdraw from power distribution, leaving management of the sector to private sector Bombay Suburban Electricity Supply (BSES) Ltd, which is setting up a joint venture with the state-owned Grid Powercorp (GRIDCO) of Orissa to own and operate thermal power assets. The project was undertaken with the backing of the World Bank, which has put in $350m to support power sector structural reforms.

Similar schemes are being considered for Haryana, Uttar Pradesh, Rajasthan, Bihar and Andhra Pradesh states, whose state power boards are heavily in debt.

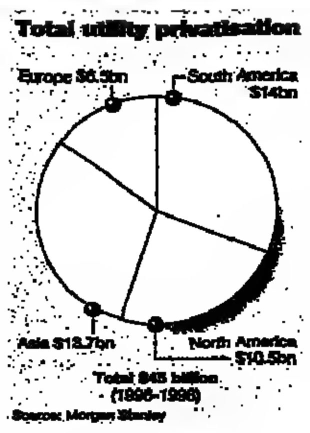
It is state power board indebtedness that makes private power sponsors look to New Delhi and to the multilateral aid institutions for support. According to the Planning Commission in New Delhi, the state boards had accumulated Rs71.3bn ($2bn) in losses in the period to end March 1996.

The continuing concern is that the state boards are too often used as pawns by local politicians – power tariffs for the agricultural sector are almost nonexistent. This does not inspire private sector confidence among the independents in the ability to recover project development costs without firm guarantees.

This is in contrast to India's existing private sector utilities, which have about 5 per cent of all capacity, but are expanding rapidly. Among them are the Tata group, BSES and CESC Ltd of Calcutta.

Sunil Saraf is New Delhi correspondent for Power in Asia, *the FT energy newsletter.*

Total utility privatisation



Source: Morgan Stanley

■ **Philippines:** by Edward Luce

Energy planning

Dependence on imported fuels is to be replaced by local resources, mainly gas

The Philippine power industry is in the midst of a sweeping restructuring which will culminate in almost all of the sector – including transmission and generation – going into private ownership. The revamp, which, like much of the government's privatisation programme, is driven as much by fiscal pressure as ideological strategy is expected to be a continuous process over the next 25 years.

By 2020, according to the government's energy plan, almost 50 per cent of the country's power generation will come from gas-driven plants fed from the country's recently-discovered gasfields. Oil, meanwhile, will drop from its 56 per cent share of total generation in 1996 to less than five per cent next century. Other indigenous energy sources, including coal, geothermal and hydro-electric power, will make up the bulk of the rest.

"Our basic vision is to eliminate our costly dependence on imported oil and diesel fuels," says Mr Ben-hur Salcedo, undersecretary of energy, in Manila. "By the end of the programme almost all of the country'e power needs will be met with local resources of which the largest share will come from gas."

The government's strategic aversion to foreign fuels does not, of course, extend to foreign companies which are expected to build most of the new capacity under the country's innovative build-operate-transfer laws. Companies like Cepa (Consolidated Electric Power Asia), which was instrumental in ending the country's brownout crisis in 1993 when it deployed dozens of power barges some of which remain in Manila Bay, and Asea Brown Boveri, the Swedish-Swiss gronp, are preparing bids.

The second prop of the energy plan, which has so far boosted total capacity from 6,000MW in 1993 to almost 10,000MW this year, is the $5bn privatisation of the National Power Corporation (Napocor) over the next two years. The sell-off, which congress is expected to approve later this year, will take place in tranches starting with Napocor'e generation capacity.

Under the blueprint, which is being finessed by NM Rothscbild, the Britisb investment bank, and Merrill Lynch, the US investment bank, transmission will be retained in state hands for several years. Napocor's generation assets will probebly be split up into four or five "mixed" companies along both regional and cross-sectoral lines.

The proceeds, which will form the country's largest privatisation eo far, will partly go towards the development of a national grid system linking Luzon, the country's most populated island, with the Visayas and Mindanao to the south by submarine cable. The existing cross-subsidy arrangements, whereby Luzon subsidises electricity in the Visayas and resideotial consumers subsidise industrial users, will be gradually phased out.

"The aims of the privatisation are multifold," says Mr Fernando Roxas, head of privatisation at Napocor in Manila. "We want to make the energy sector more efficient by putting it into private hands; we want to reduce the taxpayer's burden; we want to spread share ownership and we want to unbundle prices and subsidies in the power sector to make the whole industry more transparent."

Under the emerging blueprint, which is expected to be completed by the end of

Continued on Page VI

■ **Thailand:** by Ted Bardacke

The task of keeping the lights on

The next round of IPP bidding could shift competition more towards financing costs

With the first phase of Thailand's highly-touted Independent Power Producer (IPP) programme grinding its way towards a seemingly successful conclusion, those charged with keeping the country lit up – despite a 10.4 per cent annual increase in electricity demand for at least the next 10 years – are turning their attention towards other tasks.

These new jobs include: securing long-term natural gas contracts for electricity producers and simplifying Thailand's natural gas tariff structure; arranging the partial privatisation of the state-owned Electricity Generating Authority of Thailand (Egat); finalising the terms for the next round of IPP bidding; and the determining the fate of future hydroelectricity purchases from Laos and China.

How the details of these new policy questions will be worked out depends a lot on the conclusion of the first power purchase agreements with several IPPs who were short-listed after Asia's largest competitive bidding process last year saw 30 different international consortiums submit proposals to supply approximately 4,000MW of power to Egat between 2000 and 2002.

If the IPPs, Thailand's first, can move into implementation stage quickly enough, then the pressure to meet new demand will be lessened. There is reason for optimism. Power purchase agreements between Egat and some IPPs are imminent, says Mr Piyasvasti Amranand, secretary-general of the country's National Energy Policy Council. Negotiations have gone so smoothly and Egat has been so pleased with the quality of the IPP proposals that the response to April's 12 per cent upward revision in projected electricity demand has been to plan to buy more power from the first batch of IPP bidders. Egat is now likely to buy as much as 5,000MW by 2003 and delay the next round of IPP bidding, originally scheduled for this year, until mid-1997.

The remaining sticking point for the four gas-fired IPPs likely to win contracts is natural gas supply and tariffs. The state-owned Petroleum Authority of Thailand (PTT) is the sole supplier and transporter of natural gas and its supply and pricing relationship with Egat has never been legally codified in a way that would make IPPs bankable. So before IPPe can be assured of long-term supply with a consistent price formula, Egat and PTT have had to formalise their relationship, an arduous process between two state-owned agencies.

But with this issue settled, PTT gas supply appears set to emerge from its legal limbo, making it easier for planners to chop away at its supply monopoly and turn Thailand's pipeline system into a common-carrier one.

This would dramatically change what the next round of IPP bidding could look like. Certainties over fuel supply and cost – as well as a precedent-setting group of bankable power purchase agreements – will shift competition away from technical and legal considerations and more towards financing costs, already on conditions that are a worry to bankers.

The market for project financing and electricity deals in Thailand "hasn't taken into account medium-term risk yet," says Mr Jan Cherim, General Manager of ING Bank in Thailand. "We're getting maturities we've never seen before and margins that would be unacceptable even in mature European markets."

Still, the spectre of cost containment is pushing Egat towards a grand scheme to reorganise itself into different business units and partially privatise some of its existing and planned generating capacity and other divisions.

A group of advisers, including Lehman Brothers, Kleinworth Benson, Finance One and Anderson Consulting are helping draw up a reorganisation plan. As currently envisioned, Egat will be divided into six units (transmission, generation, maintenance, mining, engineering and construction), which will eventually take in private participation, all overseen by a centralised agency which will remain fully under state control for the foreseeable future.

By the end of this year, management of the six business units will be autonomous and realistic transfer pricing costs will start to be charged between the different units, according to Mr Chanaphun Kridakorn, Director of Egat's Corporate Planning Office.

Next year they will be corporatised and established as fully-owned subsidiaries and in 1998 they will be listed on the Stock Exchange. Egat is to sell more than 50 per cent of the shares to private investors but retain a controlling stake as it has with Egco, a generating subsidiary spun-off in 1994 in a trial programme.

The generation subsidiary, potentially the most attractive to private investors, is likely to be split into three parts and their listings be as early as 1997. But first a delicate process of division must take place, lest one subsidiary overpower the others in terms of location, fuel type, capacity and return on assets.

"We will try to make them as equal as possible and balance their different capabilities," says Mr Chanaphun. As an example, Egat's coal mining operations may be joined with the generating subsidiary that controls the coal-fired Mae Moh power plant in northern Thailand, he says. In addition, the engineering, construction and maintenance subsidiaries may end up being combined into one company and they are likely to get shares in the new generating subsidiaries in order to increase their attractiveness to investors.

Whether these new generation companies will be able to bid for projects in next round of IPP bidding or whether they will be awarded new projects that are already under Egat's mandate to build and operate is unclear. But it is Egat's current plan eventually to have all projects – except hydropower – awarded on the basis of competitive bidding.

■ **Pakistan:** by Farhan Bokhari

Turning up the power

The government's policies stress privatisation and using domestic fuel sources

Thc word "load shedding" evokes bitter memories ocross much of urban Pakistan. Many people remember the time only three years ago when freqnent power shutdowns for up to eix hours a day in some cities, posed the most serious problem to industry, businesses and every day life.

The frequency of those shutdowns known as load shedding has been cut substantially, largely because of recent attempts to improve the efficiency of existing power plants and the policy aimed at attracting new power generation projects from the private sector.

Pakistan is now set to reap the fruit of its successful power policy of 1994, with almost 2,100MW of new thermal power plants worth about $2.5bn due to come on line by 1998. That would account for almost 20 per cent of the country's present generation capacity.

In spite of recent concerns over the country's investment climate, the new investments promised in the power generation sector are likely to be carried through, largely due to the prospects of lucrative returns. Investors have been promised an average tariff of 6.5 US cents per kWh, in addition to exemption from paying corporate income tax.

The plants imported for new power projects are also exempted from import duties. In addition, investors are allowed to put together a debt/equity package with an 80:20 ratio, under which they are able to seek up to 80 per cent financing from commercial banks and other lending institutions if they provide 20 per cent of their own equity.

In spite of criticism that the new power projects pose a burden on the country'e external finances and the economy, many analysts agree that it was important for Pakistan to overcome its recent power shortages. Mr Nasir Bukhari, Chief Executive of Khadim Ali Shah Bukhari, a large Karachi brokerage house says; "You needed a bitter pill in the form of such large incentives, to attack the problem. The power policy was important in meeting the [power] shortfall."

Mr Arif Habib, President of the KSE (Karachi Stock Exchange), the largest stock market, adds: "The power policy has been important because the country couldn't just carry on as it was going".

However, the government now plans to tighten the power policy by only allowing future projects that are run on locally available fuels such as coal and gas. Mr Shahid Hasan Khan, the prime minister's adviser on economic affairs who prepared the 1994 power policy, says: "In the months to come we will still be issuing letters of support for projects based on indigenous fuel." Other officials say that the government will try to seek lower rates rather than commit itself to the 6.5 cents tariff.

But the problems confronting the power sector are far from over. Pakistan's power distribntion system, run exclusively in the public sector, is plagued by widespread abuse in the form of inefficient operations and large scale theft of electricity through illegal connections known in local parlance as the *kunda*. In some areas, the loss of electricity during transmission is as high as 30 per cent.

The government's answer to the problem has come in recent announcements on the privatisation of the power generation and distribution systems. Many officials are encouraged by the sale of the 1,600MW Kot Addu power station in central Pakistan to Britain's National Power, earlier this year. The government intends to sell the 880MW Jamshoro power plant in southern Pakistan, by the end of this year. In addition, there are plans for one of Pakistan's eight power distribution boards, the FAEB (Faisalabad Area Electricity Board) which serves the industrial city of Faisalabad, to be privatised by June next year.

Mr Naveed Qamar, Pakistan's minister for privatisation, says; "Privatisation will take care of most of these problems. Private managements will neither allow inefficiency nor theft." But many businessmen say that privatising the distribution systems may be the most difficult task in reforming the power system.

The FAEB has 14,000 employees, many of whom have reaped large benefits from corruption. Even though the government has given assurances that there would be no redundancies during the first twelve months after privatisation, it is still not clear if the unions would accept the change of management.

Even if Pakistan's needs in the short term are met by the government's efforts, the country still needs an estimated $50bn in investments over the next twenty years. There is little chance that the public sector, suffering from tightening resources, would be able to foot the bill.

However, private sector flows are likely to depend to a large extent on the state of the country'e economy. At present, only 40 per cent of the country's population has access to electricity.

Much may depend on the emergence of a growing consumption-oriented middle class which is capable of paying for power – at any cost.

■ **Hong Kong:** by Louise Lucas

Power policy kept on low heat

Changes in policy towards the split between the two main suppliers are now possible

Hong Kong's Lamma Island: an extension is proposed in order to meet future forecast demand — Sarah Murray

Hong Kong's energy policy, in keeping with the spirit of much of the territory's laissez-faire framework, is minimal: a scheme of control specifies permitted profits as e percentage of net fixed assets and limits tariff hikes, while ensuring supply and demand are matched.

But a submission by one of the territory's two big suppliers to increase its output stands to magnify the government's role at a crucial time for Hong Kong – less than a year before China resumes sovereignty.

"We generally don't go in for regulating the private eector, we just monitor them," says Mr Eric Johnson, principal assistant secretary in the government's Economic Services Branch (ESB). He edds there is e degree of regulation, "to the extent we feel necessary to ensure that not only do [the privete eector companies] have a reasonable incentive to stay in business and to continue to invest, but also to ensure consumers get a fair deal and thet we pay due regard to other aspects, for example environmental protection which is becoming more and more important."

However, that policy is set to be taxed as the ESB deliberates over plans recently enbmitted by Hongkong Electric, the smaller of the two main suppliers, to build a new power station. Hong Kong Electric, which is 34.6 per cent owned by Mr Li Ka-shing's Hutchison Whampoa conglomerate, is proposing an extension of its Lamma Island plant or alternatively building on new sites in order to meet future forecast demand.

According to Hongkong Electric, which supplies Hong Kong island, Ap Lei Chan and Lamma islands, the government's consultants have indicated agreement with the company's system load forecast and the need for additional generating capacity in 2003. However, analysts say the decision is not necessarily clear-cut – in essence, because of the excess supply on the Kowloon peninsula, home to mass resldantial estates, light industrial factories, and retail malls, which is served by China Light and Power (CLP).

It is this overall demand/supply equation – as opposed to thet on Hong Kong island, which includes some of the wealthiest residential areas and the prime office sites – which could lead the government to veto Hongkong Electric's proposals.

The government, eager to deflate eccusations of e neatly-split duopoly, insists the Scheme of Control agreement does not confer exclusive rights on Hongkong Electric and CLP to supply, reepectlvely, Hongkong island and Kowloon. Indeed, there are e few tiny operators supplying villages outside the CLP grid in the northern part of the remote New Territories.

According to Ms Caroline Rodgers, an analyst with Merrill Lynch in Hong Kong, the traditional policy of planning for the two areas separately has been purely for the sake of convenience, and ESB has indicated that oversupply could be sufficient reason for changing historic practice. Moreover, the government department has verbally confirmed thet Hongkong Electric'e obligations are to Hong Kong as e whole, and that it does not have e right to supply all demand coming off the island.

Possible changes in government policy towards the historically neat spllt between the two companies are being prompted by more than Hongkong Electric's desire to build. Changes in the economy have also skewed the fortunes of the two utilities. While CLP is suffering from the ongoing migration of manufacturing factories across the border into China – which is reducing demand, forcing CLP to delay its capital expenditure programme – Hongkong Electric expects to benefit from the massive Central to Wanchai reclamation project and other major developments that will boost demand for electricity.

Thus, if the government blocks Hongkong Electric'e extenslon, lt must either chart e means for it to buy excess capacity off CLP (which could require compensating Hongkong Electric) or allow Hongkong Electric to make up its shortfall by buying from mainland China.

Ms Rogers expects the government would go the former ronte, with Hongkong Electric making e capacity payment to eecure the rights to an equivalent amount of genereting capacity. An agreement could be made to reward this investment with an identical return to that of the Scheme of Control, which lays out the financing parameters for the two utilities. This return could then be dedncted from CLP's return under lts Scheme of Control – an arrangement which could have an impact upon the latter's shareholders.

Such a solution stands to alienate both the utilities, and would also entail substantial policy changes which could prove unpopular (or at any rate a low priority) with the handover of Hong Kong's sovereignty less than a year away. In this context it is possible the company's relations with Beijing may come into play: Hongkong Electric, through Mr Li, is very close to Beijing and CLP, through the foundations laid by lts late founder Lawrence (latterly Lord) Kadoorie, also enjoys good relations on the mainland.

Beijing could be persuaded that new arrangements undermine the 15-year echeme of control agreements, which eseentially ensures customers will have e reliable, efficient and reasonably priced eupply.

Many analysts reckon that the easiest option for the government would simply be to ignore the excess supply to Kowloon and give Hongkong Electric the go-ahead, even though to do so may well prove detrimental to the consumers – and they pay for excess capacity – the Schemes of Control are designed to protect.

■ **China:** by Tony Walker

Towards foreign involvement

The "comfort letters" in the Laibin talks are the key to a vast market

Chine is edging towards securing greater foreign involvement in its overstretched power sector, but progress is slow and international power companies will need to be patient.

Negotiations under way for a 700MW power plant in the Guangxl region, southern China, are likely to prove critical to foreign ambltlons. The Laibin B project is being used as e model by the Chinese for foreign equity participation in the power sector.

The State Planning Commission, which is involved in the approval process for all major projects in China, has said that "standardised guidelines and documantation" used in the Laibin approval process will be applied to other build-operate-transfer schemes not just in power, but in infrastructure generally.

Foreign power companies, therefore, have a big stake in the sncceseful outcome of the Laibin negotiations. Officials involved in the discussions say that difficult issues include repeyment guarantees demanded by foreign banks and credit agencies and power purchase arrangements.

Stakes are high in e sector which offers enormons potential for equity participation, but has proved e hard nut to crack for investors. Beijing, in spite of a chronic electricity shortfall, has been relnctant to open its doors on terme which might be acceptable to foreign partners.

Much discussion in the Laibin negotiations will be revolving around whether "letters of comfort" offered by provincial governments to support local projects in lieu of bank guarantees will be sufficient.

Foreign banks and investors have serious reservations abont the value of theee so-called "comfort letters", arguing they would not be enforceable legally in the event of e default.

However, the attractions of China are such that foreign companies are bending over backwards to find ways around the bank guarantee problem. A recent study by DRI/McGraw Hill* explains why.

The study found thet by 2015, annual demand for energy in China will climb to 1.94bn tonnes of oil equivalent from 750mtoe in 1993. That is if present policies of decentralisetlon and price liberalisation continue.

Investment required to meet this demand could reach $1,000bn, of which slightly more than half would go on electric power generation. Foreign capital would account for 20 per cent of the total. In other words, there is enormous scope for foreign involvement in the power sector if China applies more flexible policies and foreign power companies are able to accept them.

Pressure on Beijing to exhiblt greeter flexibility derives from the fact that power eupplies fall well short of demand. According to the Ministry of Electric Power'e own estimates 15-20 per cent of demand cannot be satisfied. Peregrine, the Hong Kong-based investment bank, says that by 2000 "the electricity shortfall will at best be around 11 per cent of electricity demand, despite the Chinese government'e aggressive development plans."

China expects investment in the power sector to reach Yn690bn ($83bn) during the Ninth Five Year Plan (1996-2000), 20 per cent of which would come from foreign sources, including "soft loans".

China plane to add 15,000MW a year to the present total of around 200,000MW, reeching 300,00MW by 2000. Thls would involve trebllng capacity between 1987-2000, no small achievement in itself.

Power ehortages, especially in the energy-starved sonthern ereas where growth is most rapid, continue to be a drag on the economy. According to some estimates, insufficient supplies eheve 1-2 percentage points from GDP growth.

Mr Shi Dazhen, the minister of electric power, helped in e recent interview to put in perspective challenges facing China with lts huge populetion of 1.2bn set to reach 1.3bn in 2000. He pointed out thet while China ranks second or third in the world in installed capacity with 217,000MW (there ie debate whether it has outetripped Jepan), it is only 80th in terms of consumption per head.

If it were to reach the present US level of installed capacity per head it would need 2.6mMW of generating capacity, or five to six times its target for 2010 of 500,000MW-550,000MW.

In its efforts to both commercialise and energise lts power sector, China has also embarked on an ambitious restructuring. It plans to consolidate all netlonally-owned power stations into e national corporation with assets worth Yn400bn.

The new Federation of Chinese Power Enterprises would facilitate the separation of the regulatory functions of the Ministry of Electric Power from the power sector itself. The new vehicle would be used to issue ehares and bonds, and raise financing for new projects.

The federation would also be authorised to engage in equity ventures with foreign partners for the extension of existing power stations, or the construction of new ones.

**China's Energy in Transition, DRI International Energy Consulting, 8-10 rue Villédo, 75001 Paris, France. Fax 331 42 60 25 05*

PROFILE China Light and Power

Little time for gloomy forecasts

As the economy matures, the company has broadened its horizons

Mr Ross Sayers has little time for gloomy predictions of Hong Kong'e prospects. The chief executive of China Light and Power, the territory'e biggest electricity company and monopoly supplier to Kowloon, sees continued growth at home, despite Hong Kong's slowing economy, and strong potential beyond its borders.

"OECD countries would kill for this kind of growth," he says, referring to the the company's expectations thet GDP will rise by between 3.5 per cent and 5 per cent per annum to the year 2000. The handover to China, he argues, will remove uncertainty in the business environment, and pales besides the significance of power demand on the mainland and in the region.

It is an appealing scenario, with much to support it. But the fact remains that CLP is going through one of the trickier patches of its 95-year history. "The reality is that they will never see the growth rates in Hong Kong that they enjoyed in the past," says Mr Rohan Dalziell, utilities analyst at ING Barings.

Part of the explanation lies in the maturing of the Hong Kong economy. One of Asia's original export tigers, it no longer records the double digit rises of the 1970s and 1980s and has suffered from weak consumption and retail spending over the past 18 months.

Structural shifts are no less significant. High land costs and inflation have prompted much of the territory's manufacturing industry to seek cheaper prodnction sites, resulting in an exodus across the border into southern China and elsewhere in the region.

The scale of the upheaval is revealed in the statistics. Manufacturing's share of GDP has fallen from 24 per cent in 1979 to below 15 per cent today, while its workforce has halved to below 400,000. As a result, industrial demand for electricity has shrunk.

Although the manufacturing downturn has been offset by increased commercial and domestic sales, CLP has revised its investment plans. The corporate plan drawn up in 1992, projected capital expenditure of HK$60bn by 1999. That figure was cut last year to about HK$53bn. Mr Sayers believes further "fine tuning" may be needed, although he rules out e major revision.

Demand in Hong Kong is likely to be supported by economic recovery, signs of which are already penetrating the retail and property markets. There are also significant new sources of revenue in the group's home market.

Chief among these is Hong Kong'e Chek Lap Kok airport, which is set for completion by spring 1998. New towns are being built, while the territory's Mass Transit Railway system is also set to consolidate its position as CLP'a biggest customer through the launch of new services.

But with the maturing of the Hong Kong economy, CLP has been prompted to broaden its horizons. CLP already has significant investments on the mainland. The Hong Kong group has a 25 per cent stake in the Daya Bay nuclear plant and has a joint venture generation project in Guangzhou. Along with partners which include Electricité de France, CLP has won Beijing's blessing for a major power plant in Shandong, on the eastern coast. Outside of China, the company is progressing with joint-venture projects in Taiwan and India and is examining proposals in Indonesia and Thailand.

It is not an easy business. Rivalry is fierce and the projects are littered with pitfalls. The Shandong plant, which has been under negotiation for almost three years, depends on agreeing e financial structure which can reconcile the consortium'e bankers and export credit agencies with China'e refusal to provide state guarantees. The strength of competition for projects in the region and the complexities involved may also cause casualties, says the CLP chief. "I wouldn't be surprised if some of the projects run into difficulties," he says. "Some of the flash Eddies will disappear and the more aggressive and successful of the established operators will become the market leaders."

Despite the obstacles, CLP, says Mr Sayers, has strong cards to play on the mainland. The Kadoorie family, which owns about 34 per cent of CLP, has been active in China since the late nineteenth century, underpinning close contacts between the group and Beijing. The Daya Bay power station remains the biggest joint venture in China, while the Hong Kong group has provided training for hundreds of mainland technicians.

Such links should help further the group's ambitions on the mainland. They may also buttress its position at home. Hong Kong's handover to China next year has raised the prospect that mainland companies might seek to take stakes in the territory's companies and that lucrative monopolies are particularly vulnerable.

Mr Sayers sees little cause for concern. For him, the direction of business ambitions is likely to point the opposition way after July 1997. "Hong Kong's importance as a gateway to China can only increase after the handover," he says.

John Ridding

The energy plan

Continued from Page V

the year, the newly-privetised companiee will be expected to hand over a portion of the ownership – probebly 10 per cent – to employees under e share-ownership plan. As part of the government's drive to promote joint-stock accountability in the private sector, the companies will also be required to list on tbe Philippine stock exchange within e few years.

Problems such as resolving the legal status of existing power plants in private hands have yet to be ironed out. Some, notably Cepa, which is the largest foreign investor in the Philippine power sector, are planning to list on the PSE of their own accord over ths next 12 months.

Mr Gordon Wu, chairman of Hong Kong-based Hopewell Holdings – of which Cepa is a eubsidiary – said that the Initial Public Offering would include all of Cepa's assets in the Philippines including power facilities under construction such as the 700MW coal-fired plant in Pagbilao. The exercise, which would help reduce the company's high-gearing retio, would be repeated around the region.

But Mr Wu said the listing would not go ahead before the resolution of e disagreement betwean Cepa and Napocor which has bean running for over 12 months. The dispute, which started when the government disqualified Napocor from the bidding for a $2bn gas-fired plant in Batangas last year, has cast a pall over the government'a handling of the competitive bidding process.

Cepa, which submitted the cheapest of the eight bids to be put forward in the first round, was accused of breaching Philippine law by proposing to use then-banned Westinghouse Electric gas turbines at the plant. Westinghouse, which, at the time, stood accused of bribery and deception over a mothballed 600MW power plant in Bataan which it built in the 1980s, has subsequently settled with the government out of court.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Sep 13		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.8420	-0.0078	321 - 518	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	(BFr)	48.4352	+0.0187	916 - 787	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	(DKr)	9.0583	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland	(FM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	(FFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	(DM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Greece	(Dr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	(I£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	(L)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Luxembourg	(LFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	(Fl)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	(NKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	(Es)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	(Pta)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	(SKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	(SFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	(£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ecu	-	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR†	-	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Americas													
Argentina	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Brazil	(R$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Canada	(C$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico (New Peso)		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
USA	($)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific/Middle East/Africa													
Australia	(A$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong	(HK$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
India	(Rs)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Israel	(Shk)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Japan	(Y)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia	(M$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
New Zealand	(NZ$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Philippines	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Saudi Arabia	(SR)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Singapore	(S$)	2.1914	-0.0011	904 - 923	2.1937	2.1886	-	-	-	-	-	-	-
South Africa	(R)	6.9964	-0.0046	907 - 020	7.0140	6.9611	-	-	-	-	-	-	-
South Korea	(Won)	1276.01	-4.24	588 - 634	1280.71	1275.68	-	-	-	-	-	-	-
Taiwan	(T$)	42.7421	-0.0208	288 - 554	42.8113	42.6510	-	-	-	-	-	-	-
Thailand	(Bt)	39.4896	+0.0075	716 - 075	39.5220	39.3460	-	-	-	-	-	-	-

1 Rates for Sep 12. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Sep 13		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	10.8420	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	(BFr)	31.1600	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	(DKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland	(FM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	(FFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	(DM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Greece	(Dr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	(I£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	(L)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Luxembourg	(LFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	(Fl)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	(NKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	(Es)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	(Pta)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	(SKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	(SFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	(£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ecu		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR†		[illegible]											
Americas													
Argentina	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Brazil	(R$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Canada	(C$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico (New Peso)		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
USA	($)	-	-	-	-	-	-	-	-	-	-	-	[illegible]
Pacific/Middle East/Africa													
Australia	(A$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong	(HK$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
India	(Rs)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Israel	(Shk)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Japan	(Y)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia	(M$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
New Zealand	(NZ$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Philippines	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	+0.0001	505 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Singapore	(S$)	1.4098	+0.0001	095 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
South Africa	(R)	4.5010	-0.0005	985 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
South Korea	(Won)	820.900	-2.25	900 - [illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Taiwan	(T$)	27.4975	+0.0025	950 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Thailand	(Bt)	25.4050	+0.0195	000 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-

† SDR rate per $ for Sep 12 Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Sep 12: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

September 13	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.35	-	4.75
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.35	-	4.75
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	8.25	8.39
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	8.25	8.56
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.50	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.15	5.30	5.45	5.77	-	-	-
week ago	-	5.15	5.34	5.53	5.90	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Sep 13	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	3 - [illegible]	[illegible] - 3	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	2 - [illegible]	[illegible] - 2	[illegible]
Can. Dollar	[illegible]	[illegible]	4 - [illegible]	4 - [illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] - 6
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] - 3	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Sep 13		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	16.70	16.55	4.858	1.996	4903	5.440	20.81	496.3	409.8	21.45	3.980	2.064	4.393	3.208	354.3	2.564
Denmark	(DKr)	53.48	10	8.851	2.595	1.068	2622	2.909	11.13	265.4	219.0	11.47	2.129	1.104	2.349	1.718	189.4	1.371
France	(FFr)	60.42	11.30	10	2.933	1.206	2962	3.287	12.57	299.9	247.5	12.96	2.405	1.247	2.654	1.938	214.0	1.549
Germany	(DM)	20.60	3.853	3.410	1	0.411	1010	1.121	4.286	102.3	84.39	4.419	0.820	0.425	0.905	0.661	72.99	0.528
Ireland	(I£)	50.09	9.367	8.291	2.431	1	2456	2.725	10.42	248.6	205.2	10.74	1.994	1.034	2.201	1.607	177.5	1.284
Italy	(L)	2.040	0.381	0.338	0.099	0.041	100	0.111	0.424	10.12	8.354	0.437	0.081	0.042	0.090	0.065	7.225	0.052
Netherlands	(Fl)	18.38	3.438	3.043	0.892	0.367	901.3	1	3.825	91.23	75.29	3.943	0.732	0.380	0.808	0.590	65.12	0.471
Norway	(NKr)	48.06	8.986	7.953	2.332	0.959	2356	2.614	10	238.5	196.8	10.31	1.913	0.992	2.111	1.542	170.2	1.232
Portugal	(Es)	20.15	3.768	3.335	0.978	0.402	987.9	1.096	4.193	100.	82.53	4.322	0.802	0.416	0.885	0.646	71.38	0.517
Spain	(Pta)	24.42	4.566	4.041	1.195	0.487	1197	1.328	5.081	121.2	100.	5.237	0.972	0.504	1.073	0.783	86.49	0.626
Sweden	(SKr)	46.62	8.718	7.718	2.263	0.931	2286	2.536	9.702	231.4	191.0	10	1.856	0.962	2.048	1.496	165.2	1.195
Switzerland	(SFr)	25.12	4.698	4.158	1.218	0.502	1232	1.367	5.228	124.7	102.9	5.389	1	0.519	1.104	0.806	89.00	0.644
UK	(£)	48.44	9.058	8.017	2.351	0.967	2375	2.635	10.08	240.4	198.4	10.39	1.928	1	2.128	1.554	171.6	1.242
Canada	(C$)	22.78	4.257	3.767	1.105	0.454	1116	1.238	4.737	113.0	93.23	4.883	0.906	0.470	1	0.730	80.64	0.584
US	($)	31.17	5.829	5.159	1.513	0.622	1528	1.696	6.486	154.7	127.7	6.686	1.241	0.644	1.369	1	110.4	0.799
Japan	(Y)	28.23	5.279	4.672	1.370	0.564	1384	1.536	5.874	140.1	115.6	6.055	1.124	0.583	1.240	0.906	100.	0.724
Ecu		39.00	7.293	6.455	1.893	0.779	1912	2.122	8.116	193.6	159.7	8.366	1.552	0.805	1.713	1.251	138.2	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Sep	0.6601	0.6608	-0.0001	0.6629	0.6596	4,857	33,340
Dec	0.6652	0.6648	-0.0002	0.6669	0.6632	31,318	54,374
Mar	0.6700	0.6693	-0.0005	0.6707	0.6687	23	1,153

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Sep	0.8071	0.8043	-0.0034	0.8103	0.8035	2,873	19,211
Dec	0.8155	0.8115	-0.0033	0.8173	0.8104	19,030	31,920
Mar	0.8210	0.8191	-0.0033	0.8240	0.8190	38	959

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Sep	0.9071	0.9053	-0.0019	0.9084	0.9046	10,810	33,398
Dec	0.9191	0.9170	-0.0020	0.9209	0.9162	24,320	72,365
Mar	0.9300	0.9291	-0.0024	0.9307	0.9290	181	1,050

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Sep	1.5544	1.5552	+0.0008	1.5576	1.5512	4,797	28,653
Dec	1.5546	1.5544	+0.0006	1.5586	1.5504	9,768	38,092
Mar	-	1.5560	-0.0002	1.5580	1.5550	5	51

■ **Pound in New York**

Sep 13	—Close—	—Prev. close—
£ spot	1.5550	1.5530
1 mth	1.5554	1.5554
3 mth	1.5555	1.5558
1 yr	1.5574	1.5598

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in Today's edition.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Sep	Oct	Nov	PUTS Sep	Oct	Nov
1.540	1.35	1.60	2.08	-	0.20	0.65
1.550	0.37	0.96	1.47	-	0.51	1.04
1.560	0.06	1.47	0.99	0.52	1.02	1.55
1.570	0.05	0.18	0.62	1.51	1.72	2.18
1.580	0.05	0.15	0.36	2.51	2.51	-

Previous day's vol., Calls 5,852 Puts 9,220 . Prev. day's open int., Calls 178,556 Puts 156,235

UK INTEREST RATES

LONDON MONEY RATES

Sep 13	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible] - 5½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] - 6
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible] - 5½	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible] - 5½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	5.5 - [illegible]	[illegible]	[illegible] -	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	6	6	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on Sep 13, 5.5142pc. ECGD fixed rate Stlg. Export Finance. Make up day Aug 30, 1996. Agreed rate for period Sep 25, 1996 to Oct 25, 1996, Schemes II & III 7.07pc. Reference rate for period Aug 1, 1996 to Aug 30, 1996, Schemes IV & V 5.825pc. Finance House Base Rate 6pc from Aug 1, 1996

BANK OF ENGLAND TREASURY BILL TENDER

	Sep 13	Sep 6		Sep 13	Sep 6
Bills on offer	£400m	£800m	Top accepted rate	5.5151%	5.5361%
Total of applications	£1845m	£2658m	Ave. rate of discount	5.5142%	5.5345%
Total allocated	£800m	£800m	Average yield	5.5910%	5.6119%
Min. accepted bid	£98.625	£98.620	Offer at next tender	£400m	£800m
Allotment at min. level	81%	85%	Min. accept. bid 182 days	-	-

BANK RETURN

BANKING DEPARTMENT	Wednesday September 11, 1996	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	1,248,471,167	+37,206,219
Bankers deposits	1,847,454,081	-17,760,215
Reserve and other accounts	3,357,064,703	+166,487,774
	6,467,542,951	+185,933,778
Assets		
Government securities	1,508,169,405	+287,578,250
Advance and other accounts	2,219,223,939	-97,485,316
Premises, equipment and other secs	2,734,031,054	+2,756,871
Notes	5,985,630	-6,905,415
Coin	132,923	-8,610
	6,467,542,951	+185,933,778
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	20,784,014,370	-133,094,585
Notes in Banking Department	5,985,630	-6,905,415
	20,790,000,000	-140,000,000
Assets		
Other Government securities	15,465,523,453	+1,627,451,260
Other Securities	5,324,476,547	-1,767,451,260
	20,790,000,000	-140,000,000

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Cyprus Popular Bank	5.75	NatWestminster	5.75
Allied Trust Bank	5.75	Duncan Lawrie	5.75	●Rea Brothers	5.75
AIB Bank	5.75	Exeter Bank Limited	5.75	Royal Bk of Scotland	5.75
●Henry Ansbacher	5.75	Financial & Gen Bank	7.00	●Singer & Friedlander	5.75
Bank of Baroda	5.75	●Robert Fleming & Co	5.75	●Smith & Williamson Secs	5.75
Banco Bilbao Vizcaya	5.75	Girobank	5.75	Scottish Widows Bank	5.75
Bank of Cyprus	5.75	●Guinness Mahon	5.75	TSB	5.75
Bank of Ireland	5.75	Habib Bank AG Zurich	5.75	United Bank of Kuwait	5.75
Bank of India	5.75	●Hambros Bank	5.75	Unity Trust Bank Plc	5.75
Bank of Scotland	5.75	Heritable & Gen Inv Bk	5.75	Western Trust	5.75
Barclays Bank	5.75	●Hill Samuel	5.75	Whiteaway Laidlaw	5.75
Brit Bk of Mid East	5.75	C. Hoare & Co	5.75	Yorkshire Bank	5.75
●Brown Shipley & Co Ltd	5.75	Hongkong & Shanghai	5.75		
Citibank NA	5.75	Julian Hodge Bank	5.75	● Members of London Investment Banking Association	
Clydesdale Bank	5.75	●Leopold Joseph & Sons	5.75		
The Co-operative Bank	5.75	Lloyds Bank	5.75	* In administration	
Coutts & Co	5.75	Midland Bank	5.75		
Credit Lyonnais	5.75	*Mount Credit Corp	6.00		

FT GOLD MINES INDEX

	Sep 13	% chg since 29/12/95	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (36)	1981.33	+4.1	52.92	100.00	1.57	-	2620.73	1722.83
■ Regional indices								
Africa (13)	2831.80	+5.2	14.10	27.11	3.05	38.98	3553.88	2272.74
Australasia (6)	2154.38	-9.1	5.75	11.05	2.59	20.90	2927.34	2123.50
North America (11)	1790.85	+6.3	32.17	61.84	0.74	66.17	2188.38	1489.94

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■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.36	94.43	+0.07	94.46	94.36	67,742	291,344
Dec	94.00	94.13	+0.14	94.20	93.99	151,883	482,408
Mar	93.84	94.01	+0.18	94.07	93.84	179,295	349,558

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	94.85	-	-	-	1	1,543
Dec	94.61	94.73	+0.14	94.78	94.60	239	3,010
Mar	94.42	94.59	+0.18	94.63	94.42	121	1,379

All Open interest figs. are for previous day

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§100	F.P.	-	100	100	Amer Opps Ln 03/06	100		-	-	-	-
-	F.P.	12.4	68	64½	†Barbican Hlthcre	64½		-	-	-	-
-	F.P.	201.6	198	182½	Dairy Crest Grp	182½		W9.1	2.7	6.2	7.5
*	F.P.	5.17	4	4	†Dentmaster	4		-	-	-	28.5
§145	F.P.	50.7	246	148	†Elec Retail Sys	241		-	-	-	-
§	F.P.	2.39	53	41	†Fayrewood	45½xd		Z0.4	-	1.1	-
§	F.P.	95.3	109½	107½	†Gartland Whalley	109½		-	-	-	-
§12.5	F.P.	1.60	14¼	13¼	†Grosvenor Land	13¾	+½	-	-	-	-
§85	F.P.	18.2	86	84½	Hambros Sm Asn C	85		-	-	-	-
§100	F.P.	24.4	98	94	Home Gvt 1000 C	97½		-	-	-	-
§12	F.P.	0.60	15	12	†Lile Numbers	12		-	-	-	-
§	F.P.	0.10	0	2	†Lile Numbers Wts	5		-	-	-	-
-	F.P.	0.44	8	3	Pembertons Wrts	7		-	-	-	-
§	F.P.	12.1	70½	69½	†Polydoc	70½		-	-	-	-
§100	F.P.	81.7	95	90¼	Schroder Em Cos	93¾	-¼	-	-	-	-
§	F.P.	5.71	39	31	Schroder Em Wts	38½	+¼	-	-	-	-
-	F.P.	41.3	376½	343	Schroder Em Ct C	375	+1½	-	-	-	-
§66	F.P.	13.3	70	65	†Selector	68		-	-	-	-
-	F.P.	-	89½	85	St James Place	88	+½	-	-	-	-
-	F.P.	-	73	69½	Value Rlstn Tst	70½	-½	-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1996 High	Low	Stock	Closing price p	+or-
25	Nil	18/9	4pm	1pm	Ronson	1pm	
410	Nil	18/9	123½pm	96pm	Stagecoach Hldgs	123pm	
123	Nil	18/9	16½pm	11½pm	Wyko Group	15pm	

pm premium.

UK GILTS PRICES

Notes	Price £	Wk % +/-	Amt £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)						
Treas 2pc 1996	[illegible]	-	1,200	Mr16 Se16	5.0	1313
Conversion 10pc 1996	[illegible]	-.1	3,409	My15 Nv15	3.5	1240
Treas 13¼pc 1997‡‡	[illegible]	-.1	1,290	Jy22 Ja22	11.7	1302
Exch 10½pc 1997	102	-.1	3,700	Ap21 Fe21	12.8	1253
Treas Cnv 7pc 1997‡‡	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 8½pc 2005‡‡	105½	1.3	8,800	Ja7 De7	29.5	4946
Treas 7½pc 2006‡‡	[illegible]	1.4	9,000	Ja7 De7	29.5	1148
Treas 7¾pc 2006‡‡	[illegible]	1.5	3,900	Mr8 Se8	2.8	2300
Treas 8pc 2002-6‡‡	[illegible]	-	2,000	Ap5 Oc5	27.3	1334
Treas 11¾pc 2003-7	[illegible]	0.7	3,150	Jy22 Ja22	11.7	1268
Treas 8½pc 2007‡‡	[illegible]	1.4	7,397	Ja16 Jy16	5.7	1339
Index-Linked	(b)					
4⅝pc '98‡‡	(135.6) [illegible]	0.2	800	Ap27 Oc27	18.4	1753
2½pc '01	(78.3) [illegible]	0.2	1,350	My24 Nv24	27.3	1316
2½pc '03	(78.8) [illegible]	0.3	1,800	My20 Nv20	9.5	1317
4⅝pc '04‡‡	(135.6) [illegible]	0.3	1,150	Ap21 Oc21	11.4	1255
2pc '06	(69.5) [illegible]	0.4	2,100	Ja19 Jy19	10.7	1314
2½pc '09	(78.8) [illegible]	0.5	2,200	My20 Nv20	9.5	1315

[illegible]

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for January 1996: 150.2 and for August 1996: 153.1.

Other Fixed Interest

[illegible]

‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

STOCK INDICES

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

BANKS, MERCHANT

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

BANKS, RETAIL

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

BREWERIES, PUBS & REST

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

BUILDING & CONSTRUCTION

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

BUILDING MATS. & MERCHANTS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

CHEMICALS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

CHEMICALS - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

DISTRIBUTORS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

DIVERSIFIED INDUSTRIALS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

ELECTRICITY

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

ELECTRONIC & ELECTRICAL EQPT

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

ELECTRONIC & ELECTRICAL EQPT - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

ENGINEERING

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

ENGINEERING - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

ENGINEERING, VEHICLES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

EXTRACTIVE INDUSTRIES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

EXTRACTIVE INDUSTRIES - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

FOOD PRODUCERS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

FOOD PRODUCERS - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

GAS DISTRIBUTION

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

HEALTH CARE

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

HOUSEHOLD GOODS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

HOUSEHOLD GOODS - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

INSURANCE

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

INVESTMENT TRUSTS

Approved by the Inland Revenue

	Notes	Price	Wk% ch'nge	Div net	Dividends paid	NAV	Dis or Pm(-)	Last xd	City line
[illegible]									

INVESTMENT TRUSTS - Cont.

	Notes	Price	Wk% ch'nge	Div net	Dividends paid	NAV	Dis or Pm(-)	Last xd	City line
[illegible]									

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

	Notes	Price	Wk% ch'nge	Div net	Dividends paid	NAV	Dis or Pm(-)	Last xd	City line
[illegible]									

هكذا من الاصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		9222½xd	—	0545c	♦	May Oct	2.9	–
Barlow	♣†	5593	—	081c	–	Jan Jul	17.6	–
Gold Flds Prop R		13729	—	080c	1.5	Mar Sep	26.2	–
MK Props		60	—	083.9c	–	Mar Sep	9'95	–
SASOL	♥	845	—	078c	–	Oct	9'93	–
SA Brews		616½	—	0209c	♦	Jul Dec	3.6	4113
Standard Bank		6351½	3.5	0264c	3.1	Sep Mar	–	–
Tiger Oats	†	790	—	0114c	3.0	Jan Jul	10.8	–
Tongaat-Hulett		700xd	—	0130c	♦	Jan Jun	20.5	–

GUIDE TO LONDON SHARE SERVICE

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Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend includes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. ‡‡ Dividend is paid in whole or part as a FID (Foreign Income Dividend). O Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Offshore Funds and Insurances

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LUXEMBOURG (REGULATED)(**)

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OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

INDICES

US INDICES

Dow Jones	Sep 13	Sep 12	Sep 11	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5838.52	5771.94	5754.92	5838.52 (13/9)	5032.94 (10/1)	5838.52 (13/9/96)	41.22 (8/7/32)
Home Bonds	102.01	101.75	101.47	106.09 (14/2)	100.89 (15/7)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2057.62	2042.50	2035.36	2296.20 (22/5)	1882.71 (18/1)	2296.20 (22/5/96)	13.23 (8/7/32)
Utilities	218.56	218.38	215.89	234.00 (12/2)	204.86 (30/7)	258.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 5871.44 (5815.59) Low 5786.73 (5739.76) (Theoretical†)
Day's high 5855.17 (5794.13) Low 5773.05 (5763.81) (Actual†)

Standard and Poors	Sep 13	Sep 12	Sep 11	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	680.54	671.13	667.28	680.54 (13/9)	598.48 (10/1)	680.54 (13/9/96)	4.40 (1/6/32)
Industrials♥	804.09	793.25	788.76	807.88 (5/9)	702.07 (15/1)	807.88 (5/9/96)	3.52 (30/6/32)
Financial	71.66	70.45	69.98	71.66 (13/9)	58.67 (10/1)	71.66 (13/9/96)	7.13 (4/9/74)
NYSE Comp.	363.70	358.73	356.00	363.74 (24/5)	321.41 (10/1)	363.74 (24/5/96)	4.84 (25/4/42)
Amex Mkt Val	570.26	566.66	566.06	614.99 (22/5)	525.60 (16/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1188.68	1165.81	1153.95	1249.14 (5/6)	988.57 (15/1)	1249.14 (5/6/96)	54.87 (3/10/74)

RATIOS

	Sep 6	Aug 30	Aug 23	Year ago
Dow Jones Ind. Div. Yield	2.24	2.25	2.21	2.44
	Sep 11	Sep 4	Aug 28	Year ago
S & P Ind. Div. yield	2.02	2.06	2.02	2.11
S & P Ind. P/E ratio	21.84	21.50	21.77	18.35

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Hanson	29,540,000	13¼	+¼
PepsiCo	7,973,400	29¾	–¼
Micron	5,784,100	23¾	+⅛
WalMart	5,780,700	27¼	–¼
IBM	5,504,100	122⅛	+4⅞
Gillette	4,738,100	70⅜	+4⅝
H Packard	4,652,100	46½	+2
Fed Nat Mtg	4,095,400	34⅝	+1
Duracell	3,849,100	62¾	+4½
Xerox	3,618,400	53½	–1⅜

TRADING ACTIVITY

● Volume (million)

	Sep 13	Sep 12	Sep 11
New York SE	487.502	398.834	375.199
Amex	23.273	17.521	17.949
NASDAQ	(a)	555.509	498.538
NYSE			
Issues Traded	3,228	3,208	3,195
Rises	1,726	1,473	1,243
Falls	721	870	1,021
Unchanged	780	865	931
New Highs	220	152	111
New Lows	19	27	36

S&P 500

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	679.50	682.65	+10.7	683.20	677.70	49,024	97,072
Dec	677.85	686.85	+10.75	689.00	677.15	98,029	119,486

Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	20540.0	20740.0	+230.0	20740.0	20540.0	168	9,094
Dec	20610.0	20870.0	+270.0	20940.0	20550.0	46,540	181,476

Open interest figures for previous day.

GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ... y's highs and lows are the averages of the highest and lowest prices reached during the day by each ... hs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached ... brackets are previous day's). ♥ Subject to official recalculation.

INDEX FUTURES

TOKYO - MOST ACTIVE STOCKS: Friday, September 13, 1996

	Stocks Traded	Closing Prices	Change on day
Ga-Jo-En Kanko	30.4m	52	-10
NKK Corp	9.8m	282	+4
Nippon Steel Cp	8.9m	345	+2
Kobe Steel	7.3m	281	+6
Bk Tk-M,bishi	6.3m	2170	+30
Mitsubishi Hvy	6.2m	871	+6
Kawasaki Steel	5.8m	363	+6
Toshiba Corp	5.4m	710	+11
Nissan Motor	5.4m	869	+21
Matsushita E Ind	4.9m	1820	+20

4 pm close September 13

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]										

- A -

- B -

56	41½	BkBstn	1.76	3.2	11	9224	u56	55½	55⅞	+1⅞
46⅞	41½	BkBostnA	3.00	7.1		10	42¼	41⅝	42⅛	+⅛
30¼	21¾	BankNY	0.60	2.9	12	14436	u30¼	29	30	+⅝
24	19¾	BTM ADR	0.07	0.4	153	119	20	19⅞	20	-⅛
51	40	BankAm A	3.25	7.9		20	40⅞	40	40⅛	+⅛
80	82¼	BankAm B	0.50	7.1		14	84	83½	84	+⅝
83½	61	BnkTst	4.00	4.8	13	4463	u83½	81¼	82⅞	+1⅜
60	43	Bclays	1.81	2.3	11	00	59¾	59¾	59¾	+½
37⅞	29½	Bard (C R)	0.68	2.2	19	930	31⅛	30½	30¾	+⅛
31⅞	35	Barnes Grp	1.80	3.7	12	84	40¾	43⅛	49¼	-½
67⅞	56¼	BarnBk x	2.16	3.2	11	1507	u67⅞	66⅝	67⅛	+⅛
32⅞	24⅛	BrckGd	0.12	0.4	24	9633	27⅛	70⅛	27⅛	+½
16	11½	Barry(RG)			18	295	14	13⅛	14	+⅞
11⅞	7⅛	BatGMI	0.60	0.6	172	3077	8⅛	8⅝	9⅞	+⅛
44½	32½	Bausch	1.64	3.8	21	6013	60½	34	34⅞	+1⅛
48½	30¾	Baxter x	1.21	2.7	16	6494	45½	44⅝	45⅞	+1⅛
43⅞	20¾	BayNtwks			60	9705	26⅞	25¼	26½	
29⅞	25⅞	Bay St Gas	1.54	5.7	12	416	27⅝	26⅞	27	-⅛
40⅞	15⅞	BBN			5	1160	10	17⅞	18⅞	+1
22¼	19½	BB Tr 1838	1.56	7.8		51	18⅞	19⅝	19⅞	+¼
8½	7⅞	BEA IncFd x	8.72	0.8		455	u8½	8⅛	8½	
9½	8½	Bea Strat	0.81	0.6		63	9⅛	8⅛	9¼	
24⅞	17¼	Bear Stns	0.00	2.6	8	9468	23	22⅝	23	+½
44⅞	41	BearS/PIA	2.85	6.4		z160	44⅝	44⅝	44⅝	
33¾	24	Bearings	0.56	2.0	14	56	28⅞	28¼	28⅞	-½

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

4 pm close September 13

NYSE PRICES

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng. Prev. Close
		Continued from previous page								
33⅛	22¾	Schuldaud	0.60	1.8	15	339	u33⅛	32⅝	32¾	+⅛
20⅞	12	SciAtl x	0.06	0.4	182	5143	14⅝	14⅛	14⅝	+⅛
23⅞	17	Scotsman	0.19	0.4	18	67	u23⅞	23½	23⅞	+⅛
47½	38⅛	Scripps	0.52	1.1	28	1070	46⅛	45⅞	45½	+⅛
16⅛	13⅛	ScuddrNAsF	0.02	0.1		147	13½	13⅜	13⅜	+⅛
13½	11	ScuddrNEuF	0.16	1.2		163	u13½	13⅜	13⅜	-⅛
20½	16	SeaCnB	0.17	0.9	25	8	19⅜	19⅜	19⅜	
16	15	SeaC1.4625	1.46	9.7		8	15⅛	15⅛	15⅛	
67¾	38⅛	S'gate			24	13009	51½	48⅞	50⅞	+2¾
38⅜	30⅞	Seagrm	0.60	1.7	24	5245	35⅛	34¼	35⅛	+⅞
26	17⅛	Seagull En	1.20	6.6	11	5853	18½	18⅛	18¼	+⅛
39	26	Sealed Air	0.64	1.7	28	375	38¾	38¼	38½	+½
53⅞	38¼	SearsR	0.92	2.1	16	13702	46⅛	44½	44⅝	+⅛
22⅞	19¼	SecCapStB	1.24	5.5	20	864	u22⅝	22	22½	+½
18	11⅞	Seligm Sel x	0.84	6.9		82	12¼	12⅛	12⅛	
23¾	13⅞	Sensormat	0.22	1.2	13	855	18⅛	17¾	17¾	-¼
46¼	29½	SequaA	0.60	1.3	53	20	u46¼	45⅞	46⅛	+⅝
53⅞	30	SequaB	0.80	0.9	61	126	u53⅞	52⅝	53	
30¾	19½	SercCp	0.24	0.8	29	2718	30⅞	30⅛	30¼	+⅛
24½	19½	SvMstr	0.66	2.8	15	295	24¼	23⅞	24	+⅝
6¾	4½	ServMerch			11	597	5⅞	5⅛	5⅛	-¼
45⅞	28½	SGSThm			8	2108	42⅝	41¾	42	-¼
15⅝	10⅝	Shaw Ind	0.30	2.0	39	1621	15⅜	15	15¼	+¼
13½	10⅛	Shelby WR	0.32	2.4	15	7	13⅛	12⅞	13⅛	+⅝
91⅞	76⅝	ShellTr	3.28	3.6	19	384	21¾	21⅝	91⅝	+1
47⅛	39	ShrW	0.70	1.5	18	1282	46⅛	45½	46	+1

- X - Y - Z -

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng. Prev. Close
58¾	39¾	Xerox x	1.16	2.2	47	34198	55⅝	52¼	53⅝	-1¾
47⅞	38¾	Xtra Corp	0.72	1.7	16	19	43½	43⅛	43½	+¼
25¾	20⅞	Yankee Egy x	1.30	6.0	11	36	21¾	21⅞	21⅝	
53¾	40⅞	York Int	0.36	0.7	22	584	48⅝	48¼	48½	+⅛
3⅞	3	Zapata	0.14	3.9	16	73	3¾	3⅝	3⅝	
25¾	9⅜	ZenE			10	8949	15½	14⅛	14¾	+½
28⅞	21⅝	Zenith Nat	1.00	3.7	30	119	27⅛	27	27¼	+⅛
7¾	6½	Zenix Inc	0.72	10.1		117	10⅞	7	7⅛	
22⅞	15⅛	Zero	0.12	0.6	16	40	19⅜	19	19⅜	+⅛
25¼	18½	Zion Ind	0.40	1.6	19	100	21⅞	21½	21⅞	+⅛
11⅞	10½	Zweig Fund	1.08	9.8		293	11	10⅞	10⅞	
9	8¼	Zweig Tot x	0.84	10.0		371	8½	8⅜	8⅜	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FCRnn. Ring 0181 770 0770 (open 24 hours including weekends) or fax 0181 770 3822. If calling from outside the UK, dial +44 181 770 0770 or fax +44 181 770 3822. Reports will be sent on the next working day, subject to availability.

NASDAQ NATIONAL MARKET

4 pm close September 13

AMEX PRICES

4 pm close September 13

FT GUIDE TO THE WEEK

MONDAY 16

Franco-Spanish summit

Monetary union and common Mediterranean interests will head the agenda in talks between José María Aznar, the Spanish prime minister, and Romano Prodi, his Italian counterpart. Mr Aznar will host the two-day annual summit in Valencia. They will be accompanied by their foreign affairs, economy, defence, interior and industry ministers.

Hungary/Romania treaty

Hungary and Romania sign a bilateral treaty, a prerequisite of their membership of Nato and the European Union. The treaty, which follows years of negotiation, is to be signed in the Romanian city of Timisoara, cradle of the 1989 revolution that overthrew the Ceausescu regime. However, Laszlo Tokes, the priest whose protest in Timisoara sparked the revolution, is one of the many ethnic Hungarians opposed to the treaty, which has also been heavily criticised in Hungary.

Australian PM in Jakarta

John Howard begins his first big overseas trip as Australia's prime minister. He arrives in Jakarta to hold talks with President Suharto, before travelling to Tokyo on Wednesday for discussions with Ryutaro Hashimoto, his Japanese counterpart. The trip is expected to focus on bilateral and economic relations, and lay groundwork for the forthcoming Asia-Pacific Economic Co-operation forum meeting in the Philippines.

Americas free trade area

Deputy trade ministers from the 34 members of the proposed Free Trade Area of the Americas (FTAA) meet in Florianópolis, Brazil (to Sept 17). This is the first of three preparatory sessions for a ministerial meeting next May. The FTAA aims to create mechanisms for closer trading links between its members by 2005, and to promote integration between the region's six trading blocks; its members include all countries in North, Central and South America and the Caribbean, except Cuba.

FT Survey

Power in Asia.

Public holidays

Guatemala, Honduras, Japan, Mexico.

TUESDAY 17

France and Germany talk

The finance ministers and central bank governors of France and Germany decamp to Kempten in Bavaria for the twice-yearly meeting of the two countries' economic and financial council. The talks will cover progress towards a European stability pact to underpin Europe's planned economic and monetary union. They will also review the chances of the two nations meeting the Maastricht deficit and debt criteria for Emu in the light of their restrictive budget plans.

Look and learn: as the US reinforces its military presence in the Gulf, its allies and foes are weighing up the chances of another attack on Iraq

UN general assembly

The 51st session of the United Nations general assembly opens in New York, with its 155-item agenda including no fewer than 21 items on general disarmament – a goal already advanced by the UN endorsement of the treaty banning nuclear test explosions. With members still owing $3bn (£1.9bn) in dues, the industrialised countries will demand of the UN firmer management, fewer programmes and a smaller, streamlined bureaucracy. Meanwhile, having lost confidence in Boutros Boutros Ghali's leadership, the US has vowed to veto his reappointment as secretary-general.

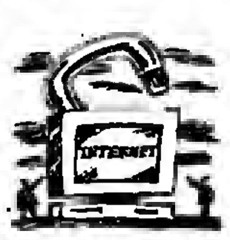
Kohl in Latin America

Helmut Kohl, the German chancellor, arrives in Brazil after two days in Buenos Aires as part of a Latin American trip which will also include Mexico. Increasing trade and building closer economic ties between Germany and the region's biggest economies are the main agenda of Mr Kohl, who is travelling with 12 German business leaders. However, he is also due to launch a global initiative to save the rain forests. After a sharp rise in trade last year, German exports to the region dropped 14 per cent in the first four months of this year while imports from Latin America were down 6 per cent.

Japan/China trade mission

The Japan-China Association of Economy and Trade sends a mission to China. The mission comes at a sensitive time for Sino-Japanese relations, which have been strained by a dispute over the Diaoyu Islands, known as the Senkaku Islands in Japan. The islands are claimed by Japan, China and Taiwan.

Internet controls pondered



Proposals for EU action to control pornographic and racist material on the Internet will be debated at the European Parliament's first plenary session after the summer recess. MEPs in Strasbourg will also consider a report arguing that public service broadcasting needs to be defended and that – provided it is commensurate with public service duties – its state funding should not be classed as state aid.

Public holidays

Angola, Mauritius.

WEDNESDAY 18

French budget presented

France's 1997 budget, one of the most important in recent years, is due to be presented. The main aim could be to make French participation in a single currency credible by convincing sceptical markets that the government can hit next year's budget deficit target of 3 per cent of gross domestic product. Alain Juppé, the prime minister, has already unveiled plans to cut income tax by FFr75bn (£9.35bn) over the next five years – with taxpayers receiving one-third of the reduction next year.

European Union debate

The European Parliament will hold its second "state of the union" debate, with Jacques Santer, president of the European Commission, John Bruton, prime minister of Ireland – holder of the EU presidency – and Klaus Haensch, president of the parliament. Subjects are likely to include the slow progress of the intergovernmental conference on revising the Maastricht treaty. The EU's 1997 draft budget will also be debated.

Saleroom

Paul McCartney's handwritten lyrics for the song "With a little help from my friends" are the star lot in Sotheby's auction of rock and roll and film memorabilia (to Sept 19). They carry a top estimate of £80,000 – but there is a chance they could exceed the world record for Beatles lyrics of £161,000. Also in the sale is one of Dizzy Gillespie's trumpets, which could fetch an estimated £35,000.

Thai no-confidence motion

Debate begins on a no-confidence motion against Banharn Silpa-archa, the prime minister of Thailand, with the censure vote itself expected on Friday. Mr Banharn, whose six-party coalition holds a slim parliamentary majority, may resign before the debate and attempt to form a new coalition. He is accused by the opposition of corruption, mismanaging the economy, lack of leadership and abuse of power. No elected prime minister has survived a full four-year term in Thailand.

FT Surveys

Philippines; Europe's Most Respected Companies.

Public holiday

Chile.

THURSDAY 19

Good cheer for the South

The Geneva-based United Nations Conference on Trade and Development (Unctad) will have some rare good cheer for developing countries in its latest report. Poor nations can still replicate the dynamic export-led growth of east Asian countries, it says, given appropriate policies and provided rich countries do not close their markets. At the same time, Unctad notes that successful industrialisation has reduced the South's dependence on the North for trade and investment – which is just as well given Unctad's gloomy predictions for growth in Europe and Japan.

Equestrianism

Blenheim three-day event, Woodstock, England (to Sept 22).

FT Survey

International Telecommunications.

Golf

Loch Lomond World Invitational event, Scotland (to Sept 22).

Public holiday

Chile.

FRIDAY 20

EU finance ministers meet

EU finance ministers and central bank governors meet in Dublin for weekend talks on how to manage the transition to economic and monetary union in 1999. There is hope of a broad deal on new rules to enforce budgetary discipline among Emu countries, but Germany could call for tougher penalties. Ministers will also finalise rules for a reformed exchange rate mechanism for countries which do not join the single currency.

Estonian poll continues

Estonian presidential elections continue in Tallinn, the capital, when a special electoral college involving 273 regional leaders and 101 MPs gathers. Neither Lennart Meri, the incumbent, nor Arnold Ruutel, the challenger, won the necessary two-thirds vote in parliament last month. The charismatic Mr Meri has come under attack for alleged KGB links from the nationalist Mr Ruutel, whose power base is in rural Estonian regions.

FT Surveys

Social Housing (UK only); Venture and Development Capital; UK Business Property.

Public holiday

Belize.

SATURDAY 21

Public holidays

Armenia, Bangladesh, Belize, Malta.

SUNDAY 22

Lib-Dem conference opens

The Liberal Democrats kick off the UK party conference season, the last before the general election, in Brighton. Given the importance the electorate places on party unity, the conference is likely to be more disciplined than usual. Paddy Ashdown, the Liberal Democrats' leader, is expected to point up the party's policy differences with Labour – particularly its more radical approach to taxation – while stressing its ability to work with a potential Labour government (to Sept 26).

Election in Greece

Greece holds an early general election, one year before the Panhellenic Socialist Movement's (Pasok) four-year term runs out. Costas Simitis, the prime minister, is fighting to stay in power. The conservative New Democracy party, under Miltiades Evert posts a strong challenge, while the Democratic Renewal Movement (Dikki), a socialist splinter group led by Dimitris Tsovolas, a former finance minister, is attracting discontented socialists.

Motor racing

Britain's Damon Hill, driving a Williams-Renault (although he won't be doing so next season), can take a big step towards the world drivers' championship in the Portuguese grand prix at Estoril, the season's second last. But Hill needs better luck than in the Italian grand prix, when he spun off the track. Hill's only challenger for the title is Williams team-mate Jacques Villeneuve of Canada, 13 points behind.

Public holiday

Italy.

Compiled by Simon Strong. Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: German data due this week are expected to show the growth of M3 money supply is slowing, while the Ifo business climate index should show that the pick-up in economic growth is only modest.

Tuesday: US industrial production data will be scrutinised for any inflationary signals ahead of next week's key US FOMC meeting when a possible interest rate rise will be discussed. The UK public sector borrowing requirement is thought to have been £4.1bn last month.

Wednesday: UK retail sales are expected to show that the recovery on Britain's high streets gathered pace last month. Canada's merchandise exports are forecast to have recovered in July after falling in June.

Thursday: UK M4 money supply figures are expected to show that broad monetary growth remained high last month. Italian producer price inflation is expected to hava fallen slightly in July.

Friday: The Confederation of British Industry's latest survey is expected to show that the recovery in British manufacturing industry continues to strengthen.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Germany	Aug consumer price index	-0.2%	-0.5%
Sept 16	US	Jul business inventories	0.2%	0.1%
Tues	Japan	Jul overall pers consumer expend**	-1.0%	3.4%
Sept 17	Japan	Jul pers consumer expend (workers)**		5.0%
	Japan	Jul income (workers)**		2.0%
	Japan	Jul industrial production†		4.1%
	Japan	Jul shipments†		3.3%
	UK	Aug pub sect borrowing requirement	4.1bn	-1.7bn
	Canada	Jul manufacturing new orders		-2.1%
	Canada	Jul manufacturing shipments*		-0.4%
	Canada	Jul manufacturing I-S ratio		1.35
	US	Aug industrial production	0.3%	0.1%
	US	Aug capacity utilisation	83.3%	83.2%
	Canada	Jul wage settlement inc**		0.5%
	Japan	Aug trade bal, customs cleared, nsa†	Y316bn	Y535bn
Wed	Japan	Aug money supply (M2+CD)**	3.5%	3.7%
Sept 18	Japan	Aug broad liquidity**		4.1%
	Japan	Aug Tokyo department store sales		-2.7%
	UK	Aug retail sales*	0.5%	-0.6%
	UK	Aug retail sales**	3.5%	2.2%
	US	Jul trade, goods and services	-$8.5bn	-$8.1bn
	US	Jul gds and ser export (bal of pay)	$70bn	$69.7bn
	US	Jul gds and ser import (bal of pay)	$78.5bn	$77.8bn
	Canada	Jul merchandise exports†*		-1.8%
	Canada	Jul merchandise imports†*		2.3%
	Canada	Jul merchandise trade surplus		C$3.1bn
Thurs	Japan	Sept wholesale price ind (1st 10 days)		-0.1%
Sept 19	UK	Aug M4*	0.8%	0.4%
	UK	Aug M4**	9.0%	8.8%
	UK	Aug M4 lending	5.0bn	5.2bn
	UK	Aug bld soc net new commitments	3.9bn	3.8bn
	US	Aug housing starts	1.45m	1.46m
	Canada	Aug leading indicator†*		0.5%
	US	Sept Philadelphia Fed index	20.0	21.5
	US	M1 week ended Sept 9	-$1.5bn	-$1.5bn
	US	M1 week ended Sept 9	$6.8bn	-$0.7bn
	US	M3 week ended Sept 9	$4.6bn	$2.4bn
Fri	Denmark	Aug consumer price index*	0.2%	-0.2%
Sept 20	Denmark	Aug consumer price index**	2.3%	2.3%
	Canada	Jul retail sales†*		0.6%
During the week...				
	Spain	Aug Budget balance		Pts282bn
	Spain	Aug trade balance		-Pts215bn
	Spain	[illegible]		-Pts[illegible]bn
	Germany	[illegible] M3 [illegible] base	8.0%	8.8%
	Germany	[illegible] M3 [illegible] base	4.8%	4.7%
	Germany	Aug private [illegible]	7.0%	7.1%
	Germany	Aug Ifo business climate west	94.3	94.1
	Germany	Aug[illegible] consumer climate		87.0

*month on month, [illegible] Statistics, courtesy MMS International.

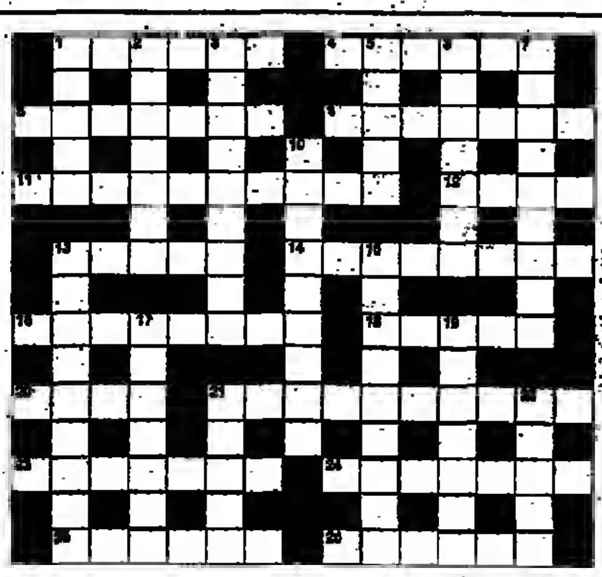
MONDAY PRIZE CROSSWORD

No.9,174 Set by GRIFFIN

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday September 26, marked Monday Crossword 9,174 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday September 30. Please allow 28 days for delivery of prizes.

Name..........

Address..........



ACROSS

1, 4 Seller of unusual trees races artist back, blushing (6,6)
8, 9 Where one goes to be trained? (7,7)
11 Splashed, tha second rushed outside (10)
12 Ewan's drunk again! (4)
13 There without the first female magistrate (5)
14 Second largest drink at student frolic? (8)
16 Returning if two little children get morbid growth (8)
18 Finding a quarter in tattered clothing goes mad (5)
20 Border on a boat going astern (4)
21 General we'd praised is at sea (10)
23, 24 Bird's tough bill injured the indomitable Briton (7,7)
25, 26 Where a movable feast is secure (6,6)

DOWN

1 Show you're angry – die! (5)
2 Soldiers left to relax after liberation (7)
3 Cut back on scents distilled with accuracy (9)
5 God has man scolded (5)
6 Alight flourishing a red tin (7)
7 Castles round a Great Lake used as bird colonies (9)
10 Soft verge comes under attack (9)
13 Repay me, rise and rub ground (9)
15 Bloomers made by Tottenham after game (9)
17 Turns and goes off stirring tea in it (7)
19 Turn to soldiers protecting sick primate (7)
21 Refuse a stew when cooked (5)
22 Shun being passionate without love (5)

Winners 9,162

Ted [illegible]guson, Washington, Tyne & Wear
J. Beattie, Slough, Berks
Ms Jessica Datta, London E5
A.V. Fontes, Pickmere, Cheshire
Gus Francis, Dublin
D. Turgoose, Beeston, Notts

Solution 9,162

JOTTER PAD

BUSINESS EDUCATION

Alumni from the Iese class of 1975 talk to **Della Bradshaw**

Altered states

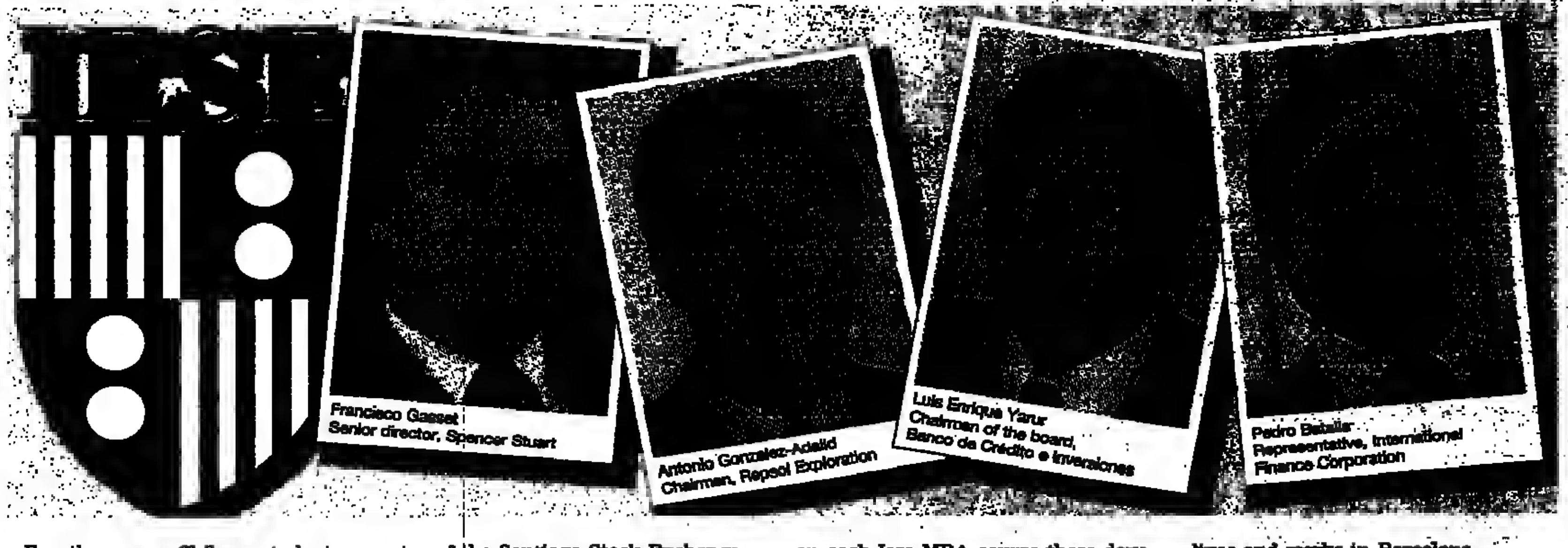
Iese

It would be difficult to distinguish the MBA class which graduated in 1975 from Iese, in Barcelona, from graduates of most other European or American business schools. They were draped in the black gowns familiar to students everywhere. But the move by students from Iese, the International Graduate School of Management at the University of Navarra, to do away with the formal black morning suits of previous years was more than an expression of sartorial preference: it was a revolutionary act.

"As Spain was approaching democracy and freedom we felt we needed to move forward," says Pedro Batalla, one of the 1975 master of business administration graduates who now runs the Buenos Aires office of the International Finance Corporation (IFC), the World Bank's private-sector arm. "A new world was waiting for us at the end of our course."

During their two years at Iese the class of '75 saw enormous changes both at home and abroad. In the summer of 1974 the first signs of ill-health heralded the end of Franco's control over Spanish politics. Students knew that democracy would deliver inward investment, says Batalla, as well as changes in management practices – auguring well for highly-qualified job hunters.

Overlaid on that were international economic pressures, notably the 1973 oil embargo. "The oil crisis began seven years of crisis," recalls Francisco Gasset, now senior director in the Madrid office of international headhunters Spencer Stuart. "That meant much more than the political thing. That was relatively smooth."



Francisco Gasset, Senior director, Spencer Stuart
Antonio Gonzalez-Adalid, Chairman, Repsol Exploration
Luis Enrique Yarur, Chairman of the board, Banco de Crédito e Inversiones
Pedro Batalla, Representative, International Finance Corporation

For the seven Chilean students on the course events were even more traumatic.

When they left Chile, left-winger Salvador Allende was running the country: on their return, two years later, General Augusto Pinochet was in charge. Many rode the changes and now have top jobs in Chile.

Luis Enrique Yarur, for example, returned to Chile in 1975, joining one of the main Chilean banks, Banco de Crédito e Inversiones. Today he is chairman of the board at the bank and director of the Santiago Stock Exchange.

Further afield 1975 saw the end of the Vietnam war but the beginning of the civil war in the Lebanon. In the UK inflation hit 25 per cent. And at the cinema, Steven Spielberg's film Jaws was striking terror into film-goers.

In 1973, when the students began their course, Iese was the only business school in Spain to offer an MBA. Indeed, when the course began in the mid 1960s it was the first such course in Europe. All the 56 students on the course – there are around 200 students on each Iese MBA course these days – spoke fluent Spanish, the language in which the course was taught. Only one of the 56 was a woman: these days 30 per cent of students are female.

Thirty-nine of the students lived in Spain, with the others coming from central or Latin America, notably Chile, Colombia or Peru. The only exception was Austrian Thomas Lilienfeld. In spite of having Austrian nationality, Lilienfeld was raised in Latin America and after graduating from Iese lived throughout the continent. He now lives and works in Barcelona.

For Lilienfeld the political and social upheaval in Spain was symptomatic of the many changes in his life. "I was starting to live in a foreign country, which had a very different approach to everything," he says.

Nevertheless what Lilienfeld remembers from the two years at Iese is the intensity of the work. "I think those two years were the hardest of my life," he recalls. "We had to interact with people from different origins and we had to reach agreement every day. It was done with an intensity you wouldn't believe. I got my first grey hairs there and I was only 25 years old!"

Gasset agrees. "For me it was just day and night. When you are a lawyer – here in Spain, at least – you know nothing about business. We studied long, long hours."

For Yarur, also fresh from law school, it was the incessant focus on mathematical skills which produced the sleepless nights, particularly in the first part of the course.

Almost half the Iese graduates of 1975 now have senior management posts in their companies, with rafts of directors in Latin America and Spain. Antonio Gonzalez-Adalid, for example, followed a career in banking and the energy industry before his appointment as chairman and chief executive officer of Madrid-based Repsol Exploration, part of Spain's biggest industrial conglomerate.

But for Lilienfeld, the picture has not been so rosy. The Spanish branch of the German-headquartered company where he worked ceased to trade, and, faced with redundancy, Lilienfeld says he fell back on many of the techniques which he had learnt as a student at Iese.

"I started to re-assess my strong points and my weak points and to work out which was the best route for me," he says. His response was to set up his own company, Grupo Sapiem, in Barcelona, selling industrial components in Spain and Portugal.

The Iese MBA has also given invaluable professional insights to Gasset in his job as headhunter. "If somebody is going to work in a company they need to invest in their own education. Just as e doctor needs to be a specialist, so a businessman has to be a specialist. The only way to be a real specialist is to heve an MBA."

CONFERENCES & EXHIBITIONS

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SPORT / ARCHITECTURE

Michael Thompson-Noel · Sport

Barclaycard: a measured tread towards 2000

Bob Potts' eyes showed only a momentary iciness when I asked him last week whether Barclaycard's new £6m, four-year sponsorship of British Olympic sport wasn't shotgunning money at too broad a target, rather than rifling it at a marketing bull's-eye.

Potts is chief executive of Barclaycard, which says it is Britain's largest credit card company. He has been with Barclays for almost 30 years, spending most of that time in retail banking.

Potts looked fleetingly aghast when I asked him why, instead of bothering with his new sponsorship, called Barclaycard Champion of British Sport, he didn't simply buy himself a dozen of Britain's most promising Olympic prospects for the Sydney games in 2000, put them on Barclaycard's payroll – and bask in the glory of an unusually well focused and pioneering marketing wheeze.

Instead, Barclaycard plans to spend its £6m supporting the development of UK sport at three levels, élite, intermediate and grassroots, by sponsoring a number of prominent stars; providing annual grants for "Britain's hidden sporting champions"; and – this is the pious and boring bit – offering training and assistance to the "silent army of volunteers" who give their time to sport at the grassroots level.

No, said Potts, warily. Buying a dozen top Olympic prospects and putting them on the payroll had not been considered. "The point of our programme," he said, "is that it has very wide customer approval. Over 90 per cent of our customers are interested in sport one way or the other, so a sponsorship like this is a perfect fit with our business. We have very carefully researched all this over a period of two years."

So Barclaycard wasn't leaping on to a marketing bandwagon by cashing in on Britain's lacklustre performance at the Atlanta Olympics this summer? Not at all, said Potts, implying that leaping on to bandwaggons was not his style.

It could have been worth a try, though. One day, I reckon, all important sports teams, including those that compete in the Olympics, will be owned by corporations. Things will be rather jolly.

Among those present when Potts unveiled his new sponsorship was Britain's Steven Redgrave, the only rower to have won four Olympic gold medals. Redgrave was asked if he was tempted to reconsider his decision to retire, given the sort of money now coming into sport. "If I had all £6m I'd carry on for the next four Olympics," said Redgrave. I do not believe he was joking.

Meanwhile, Bill Rathburn, the security chief at this summer's Atlanta Olympics, has advised those who find themselves organising future games to think small. Rathburn claimed last week that the Atlanta games, by several yardsticks the biggest Olympics ever, were plagued by behind-the-scenes management problems because of their size.

"They were too big," he said. "I don't think you'll see games this big again for a long, long time. Just to sell all the tickets you can sell is not necessarily the right approach." Atlanta broke many records for Olympic bigness, said Rathburn: 2m spectators, 11m tickets, 10,780 athletes from 197 countries, 271 events, 1,933 medals.

"The problems that [size] created were invisible to the average person, but they were problems that we ... had operationally," he said.

That is just an excuse. Atlanta knew it was going to stage the biggest-ever Olympics, but made a mess of them. All in all, Atlanta's experience has convinced me that one day – not soon – the games will return to their original home at Olympia, in Greece, perhaps under the guardianship of the UN.

The modern bidding process in which cities compete to host the games is ridiculously expensive. Scrap it, and the International Olympic Committee, which owns the games, could afford to build a modern wonder of the world: an awe-inspiring stadium at Olympia, set at the heart of a futuristic sports theme-park that included a recreation of Olympia's ancient sanctuary, temple and statue of Zeus.

The Olympics do not need much scaling down. But they have got to be well managed.

■ A new stadium at Olympia of the sort I am imagining would cost at least $2bn in today's money but could be funded (why not?) by an international, tax-exempt bond offering similar to the private offering that is partially financing the new $254m National Tennis Centre in New York, which from next year will be the main stadium for the US Open.

Building stadiums that please everyone is notoriously difficult. Gino Rosetti, of Michigan-based Rosetti Associates, which designed the new tennis centre in New York, says that the US Tennis Association "had maybe the worst stadium centre of the grand slam tournaments. Their charge to us was to make it the best in the world."

Rosetti says the worst seats in the new 23,500-seat main arena are only 15ft further from court than in the USTA's existing (and long derided) 20,000-seat Louis Armstrong Stadium. The new arena has courtside boxes, two rings of luxury suites and spacious individual seats. The price of the choicest box seats will increase by up to 100 per cent next year, with top seats costing $50,000 for the two-week tournament.

But there has been plenty of criticism. For example, Allen Swerdlowe, a New York architect and professor of urban design, says the new stadium is not so much state-of-the-art as artless. "It looks cheap to me," says Swerdlowe, who teaches at the Pratt Institute in Brooklyn. "Like everything else in New York, things are based on budgets. They're done quickly ... with very little understanding of context."

■ Are claques shaping events in British soccer? Fan-power, it is believed, will drive an increasing number of soccer managers out of their jobs because the rising cost of watching games is producing more vociferous supporters. John Camkin, secretary of the League Managers' Association, says the game is now so cash conscious that there is an escalation of protests by fans.

Howard Wilkinson, recently sacked as manager of English Premiership side Leeds, says protests by a claqua of Leeds fans during the club's 4-0 drubbing by Manchester United the other day contributed to his downfall.

"I think the pressure from fans has increased tremendously since the cost of football went up," says Camkin. "Very few boards are strong enough to stand up to the protests of [a] minority. If [fans] are paying £25 to go and see a match these days, who can deny them the right to protest?"

Quite so. But managers should not despair. All they need do is hire their own claques and pay them to drown out the protesters for as long as it takes to solve whatever is ailing their clubs. Some managers might find it prudent to hand out very large sums indeed.

Steven Redgrave, Britain's champion rower: 'If I had all £6m I'd carry on for the next four Olympics'

Colin Amery · Architecture

Sir Norman's great new tower of London

I met an architect at a party the other night who said he had been asked to enter a competition to design a "Christian Millennium Centre" for London. We were standing in a candle-lit room surrounded by Sir John Soane's art and antiquities collection. It provides evidence of the career of one of the greatest architects who saw the 18th century turn into the 19th.

What would Soane have thought about the chance to design an edifice of such clear symbolism and potential power? No doubt he would have reinterpreted tradition in his individual way. But contemporary architects are more than a bit stuck when it comes to designing anything monumental or deeply symbolic. Their training does not give them a grounding in history, and "modern" life does not have a visible and universal symbolic language.

In Britain, current architectural ideas for the millennium include bridges, towers, earth centres and art galleries. The one that is exercising minds at the moment is Sir Norman Foster's proposed London Millennium Tower on the site of the bombed Baltic Exchange, which demonstrates how the lack of shared symbolic values can be filled by adopting sheer size as the dominant quality. As designed at present, it will be 1,265ft high – the tallest building in Europe.

The reaction to the proposed tower has been mixed. However, the City of London's skyline is at present so half hearted – even ugly – that the opportunity to build a tower designed by Sir Norman should not be missed. He has a skill and elegance that is unique, and he is not inflexible or arrogant. In fact, I think he might agree that the top of his tower is not yet right.

Architectural aspirations of a more modest kind are recounted in a brilliant small exhibition that has just opened at the Riba Heinz Gallery in London, on the short but potent career of the modernist architect Christopher Nicholson, who died in 1948. Nicholson had a remarkable pedigree. His father was the artist William Nicholson, who had been trained by Whistler, and his brother was Ben Nicholson, the British abstract artist.

Nicholson set up his architectural practice after Cambridge with Hugh Casson. With such a brilliant start in English cultural life he was poised to go far, but was killed in a gliding accident when he was 44. The exhibition shows that he had already started to turn English architecture towards a stylish version of international modernism.

The exhibition shows Nicholson's architectural development from the beaux arts to modernism, as well as his interest in furniture and product design.

Nicholson's career showed a deep commitment to simple, elegant, modern design. He was not confused about symbolic language. He would have loved the idea of Sir Norman Foster's great new tower of London.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Anglo & Overseas Tst 0.6p
Baring Tribune Inv Tst 2p
British Telecom 11.25p
Do 7⅛% Bd 2003 £71.25
Brunswick $0.125
Chase Manhattan Sb FRN 2009 $149.32
Chester Asset rec No 2 Asset Bckd FRN 2001 £1436.61
Christiania Bank Sb FRN 2001 $276.22
City Mortgage Rec Mtg Bckd FRN Feb 2023 Ser 1996-2001 £50.12
Commonwealth Bank of Australia 8¾% Nts 2000 A$87.50
Granada FRN 1999 £1632.05
Guaranteed Export Fin 10⅝% Gtd Bd 2001 £1062.50
Holders Technology 2p
Honeywell $0.27
Hongkong & Shanghai Banking Prim Cap FRN (Ser 2) $75.89
Inveresk 1.93p
Ivory & Sime 5.75p
Midland Bank Non-Cm $ Pf Ser A1 $0.355
Do Ser A2 $0.08875
Do Ser B1 $0.41
Do Ser B2 $0.1025
Midland Int Fin Gtd FRN 1999 $285.85
Pendeford Mortgages Class A1 Mtg Bckd FRN 2037 £1288.19
Do Class A2 £1500.27
Do Class A3 £1510.22
Do Class A4 £1515.19
Do Class A5 £1557.46
Ragby Gtd FRN Dec 1997 $15337.01
Santander Fin Sb Gtd FRN 2004 $301.93
Do Sb Und Var Rate Nts $4123.44
Spargo Consulting 2p
Spintab FRN Sep 1998 $146.24
Stanley Leisure 4.65p
Thames Asset Global Sec Class A2 Asset Bckd FRN 2037 £1510.22
Do Class A3 £1520.16
Do Class B £1520.16
Thomson $0.1375
Time Warner $0.09
Treasury 2% IL 1996 £2.21
Uny 3.7% Nts 1998 Y370000.0

■ **TOMORROW**
Border Television 3.6p
Daiwa Europe Bank FRN 2000 Y420900.0
Glenchewton 0.45p
Hankyu FRN 1996 Y21742.0
Jasmine Tranche A FRN 2003 Y1303561.0
Limited $0.10
Louisiana Land & Expln $0.06
RJB Mining Gtd FRN 1997 £137.50
Royal Bank of Canada Fltg Rate Db 2085 $148.54
Sumitomo Chemical FRN 1997 Y19186.0
Sumitomo Realty & Dev FRN 1996 Y18780.0
Total Systems 1p

■ **WEDNESDAY SEPTEMBER 18**
Abbey National Treasury 9¼% Gtd Nts 1996 Ecu92.50
Bear Stearns FRN 1996 $152.0
First National Bldg Scty Fltg Rate Perm Int Brg £43.77
Gold Int Fin Tranche B FRN 2002 Y317647.0
Lloyds Bank Ser C Var Rate Sb Nts 1998 £151.76
State Elec Comm of Victoria 9¼% Gtd Nts 2003 A$92.50
Thai Prime Fd $0.50
Tokai Fin Und Gtd FRN Y1461918.0
VTech (Lon Reg) $0.055
Do (Bermuda) $0.055
Zotefoams 2p

■ **THURSDAY SEPTEMBER 19**
Appleyard 3.1p
Birmingham Midshires Bldg Scty FRN 2000 £150.23
Christiania Bank Rev FRN 1997 $1033.11
Coral Products 1.5p
Marubeni Int Fin Euro Yen Gtd Nts 1998 Y582988.0
Ransomes 5½% Cm Pf 1.925p
Thames Water 9½% Cv Sb Bd 2006 £237.50
Treasury 11½% 2001/04 £5.75
Vendome Luxury Units 6.63p

■ **FRIDAY SEPTEMBER 20**
Abbey National Treaury FRN 1997 £152.39
Abtrust Lloyd's Insurance Tst 2.02p
Alcan Aluminium $0.15
American Int $0.10
Barlow Int Invs 7% Gtd Cv Bd 2004 $350.0
Coutts Consulting 0.75p
Coventry Bldg Scty FRN 1997 £150.82
Enron $0.2125
Exchequer 10½% 2005 £5.25
IWP Int IR5.7p
Japan Dev Bank 6½% Gtd Bd 2001 Y65000.0
M & G Equity Inv Tst 34.4p
Do Inc 1.17p
Do Units 1.17p
Millennium & Copthorne Hotels 0.7p
NK Properties Units R0.3088
North Midland Construction 0.75p
Oriel 3.25p
Shandwick 0.43p

UK COMPANIES

■ **TODAY**

COMPANY MEETINGS:
Druck, Fir Tree Lane, Groby, Leicester, 10.00
Fleming Geared Inc & Assets Inv Tst, 5, Appold Street, E.C., 10.45
Fibernan Insurance, 15, Appold Street, E.C., 2.00
Verson Int, 2, Cornwall Street, Birmingham, 10.00
BOARD MEETINGS:
Finals:
City Technology
Dalgety
Dorling Kindersley
Hays
Prolific Income
Redrow
Second Alliance Tst
Whittard of Chelsea
Interims:
Active Imaging
Amey
Arlen
Delphi
Dixide Heel
ES
Easynet
English China Clays
Fisher (James)
Fishers Int
Hay (Norman)
Kynoch
Laporte
London & Manchester
Morgan Crucible
Princedale
Sharpe & Fisher
Travis Perkins
Turnpyke

■ **TOMORROW**

COMPANY MEETINGS:
Australian Opples Inv Tst, 10, Park Place, S.W., 2.30
Edinburgh Japan Tst, Donaldson House, 97, Haymarket Terrace, Edinburgh, 12.00
Gibbs Mew, Cloisters, Ivy Street, Salisbury, 2.30
Park Food, Tranmere Rovers Football Club, Prenton Park, Prenton Road West, Birkenhead, 12.00
Worthington, 8, Baker Street, W., 11.00
BOARD MEETINGS:
Finals:
Domestic & General
HTR Japanese Smaller Co's
Quayle Munro
Interims:
Abbot Mead Vickers
Asda Property
BSG
BSM
Brent Int
CMG
Canning (W)
Cassell
Claremont Garments
EBC
Matthews (Bernard)
Meggitt
Meristem
Roxboro
S & U
Sears
Servomex
Taylor Woodrow
Tesco
Treats
Universal Ceramic
Vardon
Vymura
Watmoughs

■ **WEDNESDAY SEPTEMBER 18**

COMPANY MEETINGS:
Bogod, 110, Cannon Street, E.C., 12.00
British Biotech, Merchant Taylors Hall, 30, Threadneedle Street, E.C., 2.30
Colefax & Fowler, Merchant Taylors Hall, 30, Threadneedle Street, E.C., 11.00
Coral Products, Holiday Inn Crowne Plaza Midland Hotel, Manchester, 12.00
Howden, Brooklands Museum, Brooklands Road, Weybridge, Surrey, 11.45
Mieys, Caledonian Club, 9, Halkin Street, S.W., 12.00
Quadrant, Registry, Royal Mint Court, E.C., 2.30
Whitney Mackay-Lewis, Maple House, 149, Tottenham Court Road, W., 3.30

BOARD MEETINGS:
Finals:
Bryant
Lyles (S)
M-R
Towry Law
Interims:
Baynes (Charles)
Bowthorpe
Britannic Assurance
Hunting
Kwik-Fit
Next
Seafield Res
Tibbett & Britten
Tilbury Douglas
Tracker Network
Ulster TV
Wassall
Wolstenholme Rink

■ **THURSDAY SEPTEMBER 19**

COMPANY MEETINGS:
Abtrust Lloyd's Insurance Tst, 99, Charterhouse Street, E.C., 12.30
Boustead, Westbury Hotel, Conduit Street, W., 12.00
Channel Hidge, Chartered Accountants Hall, Moorgate Place, E.C., 12.00
Christie, Windsor House, 50, Victoria Street, S.W., 10.00
Hi-Tec Sports, Hi-Tec House, Aviation Way, Southend-on-Sea, 10.00
Leigh Interests, Chamber of Commerce, 75, Harborne Road, Edgbaston, Birmingham, 12.00
MITIE, Stable Block, Barley Wood, Wrington, Avon, 12.00
Stewart & Wight, 82, New Cavendish Street, W., 11.45

BOARD MEETINGS:
Finals:
Alumasc
Pizzaexpress
Interims:
Albright & Wilson
Ashley (Laura)
Bilston & Battersea
Blagden Inds
Camas
Clinton Cards
Fired Earth
French Connection
Geest
IBC
Morrison (Wm) Supermarkets
RMC
Rathbone Bros
Sherwood
Spandex
Steel Burrill Jones
Sun Life & Provincial

■ **FRIDAY SEPTEMBER 20**

COMPANY MEETINGS:
Abtrust Scotland Inv, 10, Queens Terrace, Aberdeen, 12.00
Gartmore Entrprse Tst, 16-18 Monument St, E.C., 2.30
PSIT, Trinity House, Tower Hill, E.C., 12.00
BOARD MEETINGS:
Final:
Walker (Thomas)
Interims:
Atlas Converting Equipment
Estates & General
Gradus
Martin Currie Pacific
Pacific Assets Tst

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

MEDIA FUTURES

Now accessible at a screen near you: clockwise from left, Monet's 'The Beach at Trouville'; Raphael's 'An Allegory "Vision of a Knight"'; Canaletto's 'The Customs Point'; and John Everett Millais' 'Ophelia'

Time to download Delacroix

Art lovers need not trek to galleries to see the great works, says Stephen McGookin

For Anthony Roland, a 33-year crusade to safeguard the art he loves for posterity has taken on a special dimension. Roland's collection of 650 films on art features the work of 230 film-makers from 25 countries, and has gone online in an extensive, content-rich Web site (*www.roland-collection.com*).

"When I was an art dealer I felt films on art were so dreadful that I made a film to show they could be a work of art in themselves," Roland says.

With a prizewinning 1963 black and white film of Delacroix's sketches in the Louvre, Roland started to assemble what he considers will become an enduring resource.

In addition to his own work, the collection was chosen from some 8,000 films chronicling art from prehistory to the architecture of tomorrow. "It's entirely appropriate that the latest technology is used to show the public works of art that are not necessarily in museums. They might be in private collections or even still in progress," he says.

The site features a searchable database, organised by period or content, and a general alphabetical catalogue listing individual artists and subjects. It also has eight hours of video in 500 50-second clips, which at present download with painful slowness.

While the films in the collection span 12 languages, the site itself is available in French, Spanish and English (an Arabic version may follow). There is also an exhaustive list of links to other art sites and galleries throughout the world – all in all, an impressive undertaking.

Roberto Minio, business manager of the Publishing and New Media Group at Pira International, the consultancy overseeing the creation of Roland's project, says the aim of putting the collection online is to reach a global audience and make it more accessible to individual users, not just art professionals.

One thing Roland has in common with his fellow collector, Microsoft chief Bill Gates, is an eye for the commercial potential of online art.

Institutions will continue to buy art in the way they have always done.

Berlin's Central Library, for example, recently purchased a copy of every film in the Roland Collection for public display. But the potential for generating additional sales revenue in cyberspace is considerable.

Like the online catalogue provided by Gates' company Corbis (*www.corbis.com/catalogue*) – which includes selections from the Bettmann and Hulton Deutsch photographic archives – readers can purchase copies of the works which are held in the collections.

As with the Roland site, the Corbis online catalogue is updatable with the material that is added to the collection each week. Unlike Corbis, however, material from the Roland Collection cannot at present be delivered to purchasers digitally.

However, the copyright agreements covering all these collections – those of Roland and of Gates alike – allow the material to be distributed in more than one format. Minio says this makes likely the development of a Roland Collection CD-Rom.

Corbis, meanwhile, is working on a CD-Rom featuring the work of US photographer Ansel Adams, with whose estate the company signed an exclusive 20-year distribution deal in April. The managing trustee of the Ansel Adams Trust said at the time that the aim of the deal was to take the artist's work into the 21st century, "and he knew that was going to mean electronic images". While Adams' portfolio may have sold millions of posters, calendars and books, the material contained in Roland's collection is aimed primarily at art enthusiasts rather than the mass market.

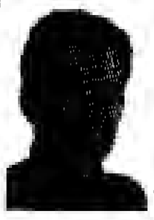
The majority – about 96 per cent – of the titles are European.

This appears to bear out Roland's assertion that although the prime source of financial support was US universities and galleries, none of the films was specifically included for the American market. "I chose outstanding films rather than the most saleable ones," he says.

For Roland, amassing the collection was a labour of love, and he is mindful of his responsibility to the film-makers whose work is now under his stewardship. "They have left us a treasure of the 20th century," he says. "By bringing them together I'm not speaking for them; I hope I'm speaking *with* them."

Tim Jackson

From Russia with lag



Question: What do you call a Russian who disembarks from an aircraft in Tel Aviv without a violin case? Answer: A pianist. Jokes like that are still doing the rounds of Israeli citizens bemused by the influx of more than 1m Russian émigrés to their country during the past five years. To some, the arrival of talented Russians – not only musicians but scientists, doctors, engineers and professors – is a source of tension. To others, it is a business opportunity.

Last week, a high-tech start-up went public on its plans to offer a deep-discount telephone service between Jerusalem and St Petersburg, carrying calls across the Internet.

Net telephony works in a similar way to traditional long-distance calling. The difference is that instead of using a large mainframe owned by a telephone company to encode the voice signal into a compressed stream of data and then decode it at the other end, the job is done by two personal computers. The link between them is the Net, not the telephone system.

So far, interest has mostly been drawn to the way this technology can add value to the World Wide Web. But the technology has started to encroach on simple telephony. One company, IDT, offers a service called Net2Phone, allowing people to call any US number from abroad for 10 cents a minute. Last year, a group of enthusiasts proved the technical feasibility of international phone-to-phone connections across the Net. Since then, several groups of entrepreneurs have been hard at work.

The principles are simple. A customer makes a local call into a "gateway", which checks that the customer's credit is good and then encodes the call and sends it over the Net. The gateway in the receiving country decodes the signal, launches a local telephone call from a modem to the customer's desired number, and connects the two together. It is the practice that is difficult.

Delta Three, formed by three Israelis who had launched a company to develop smart-card technologies, is one of the first to unveil a working commercial system. After nearly a year of development, the company started a public beta test in July 1996.

Jerusalem and St Petersburg are well chosen. Existing call prices are high: Russian immigrants to Israel pay about $1.30 (83p) a minute to call home, while callers pay twice that in the other direction. Local calls are free in St Petersburg and cheap in Jerusalem, so customers can connect to Delta Three without running up large bills.

With a pair of Pentium PCs, some dedicated hardware and software, and leased Net connections of modest bandwidth (128kbps), the company has been running a phone service of sorts for the past two months. Jacob Davidson, its chief executive, says that the alarmingly long delay that is a normal feature of Net phone calls has proved acceptable.

He claims his system is not greatly worse than mobile telephony in Manhattan, and points out that the local phone network in St Petersburg is so bad anyway that it is not always clear where to apportion blame for problems.

The most common response among telephone companies is to doubt whether a fledgling phone company can meet customers' service expectations. But a saying in the clothing trade springs to mind: "Never mind the quality; feel the width."

In the beta test, Delta Three charged only $15 for two hours' conversation, implying a price per minute of 12.5 cents. Since this undercuts the cheapest alternatives by more than 90 per cent, Davidson believes people will put up with far lower call quality, particularly if they use the service to reach their families rather than for business.

In Jerusalem, customers will pre-pay lump sums regularly through credit cards to keep their accounts in the black. In St Petersburg, where the financial system is less reliable, the company will work by selling pre-paid phone cards of fixed value through kiosks.

The test running since July was carried out with the blessing of the authorities in Jerusalem. Davidson, who studied law at Georgetown before becoming an Israeli, is confident that in Israel's deregulatory climate his application for a full licence will be granted.

In Russia, things are different. There is no telephone regulation to speak of, and the biggest issue is "security money" – protection exacted by the local mafiosi. But once its first route works, Delta Three plans to take in New York, which has a large Orthodox Jewish community with links to Israel, then London, Berlin, and Los Angeles.

The company is already talking to resellers and phone card companies in New York. Its pitch to them is that since Net telephony is going to overwhelm their existing resale businesses, they might as well cannibalise their own businesses by going into partnership with Delta Three rather than waiting for someone else to.

Judging by a conference presentation that was a little ragged around the edges, the company has far to go before it can compete with MCI, the US telephone company. But that is missing the bigger picture. Other operators will emerge; some will succeed. The barrier to entry into the international telephone business has fallen to a few hundred thousand dollars. And niche marketing will lead to a proliferation of price points and service levels.

tim.jackson@pobox.com

Net's backbone starts to flex

Delays are the bane of the service, writes Victoria Griffith

Every Internet surfer has felt the frustration: the photograph that takes 10 interminable minutes to download, the "artwork" that constantly needs to be "updated", the World Wide Web site that cannot be accessed due to demand.

Addressing the challenge of speed and efficiency is vital for a network that, commercially, at least, is still in its infancy. "People talk about security as being the most important concern for online banking, but I think it's Internet traffic," says Blaise Heltai, head of electronic commerce at New England's Fleet Bank. "Customer delays online are really the biggest impediment for us."

Internet congestion has become such a concern that at least one company has dedicated itself to tracking cyberspace delays. Matrix Information and Directory Services issues daily "traffic maps" on the Web.

Robert Metcalfe, founder of computer technology company 3Com, is so convinced a crisis is pending that he runs a Web page dedicated to proving his theory. Metcalfe invites surfers to notify him of any Net hold-ups and plans to use the information to put pressure on providers to clean up their act.

Others believe it is premature to write off the Net as a disaster waiting to happen. "I had some concerns myself a year ago, but the pace [at which] technology is being developed has made me optimistic," says Niraj Shah, president of the multimedia advertising group Spinners. "Within five years, the Net should work as smoothly as the telephone network."

The Net is a victim of its own success. Sprint, one of the largest long-distance telecommunications providers in the US, says that during the last year, demand for space – usually called "bandwidth" – has doubled every three months. That is partly because more people are floating into cyberspace, partly because each customer takes up more room.

Users are occupying more space because more data are available. Originally, the Net was a way for academics and the US military to send each other simple text messages. Today, there are about 50m sites on the World Wide Web, according to Web directories.

To make matters worse, site designers are increasingly ambitious. Pages that once featured only photographs now include video clips and sound effects. And experimental uses such as live voice transmission place mounting pressure on the system. "People have gone a little crazy with the design of Web pages," says Patrick Craig at Sprint.

To understand Net traffic, a distinction must be drawn between the "last mile" of service, which transports data between personal computers and a central pipeline, and the pipeline itself, run by "backbone carriers", which channel that data to their destination.

Speed on the last mile depends on several factors: the PC's capability, the efficiency of the telephone wire into the home, and the quality of connection provided by companies such as America Online and Compuserve.

According to Forrester Research, a leading Net research group, the PC market is seeing a dramatic increase in demand for high-speed modems. More than half of cyberspace surfers in the US now use a modem capable of transferring 14.4 kilobits of data per second – a velocity considered state-of-the-art not long ago.

Forrester predicts that the vast majority of US sales this autumn will be for 28.8 speed modems or higher. Local telephone companies are also increasing speeds on the last mile by installing more efficient wire and transmission technology.

The more bandwidth consumers use, the more pressure there is on the backbones to provide bigger, more efficient pipelines. "But because this area is run by seven major players, it's more susceptible to brute-force solutions," says Tom Evslin, vice-president of AT&T's WorldNet Service.

Cable modems are one intriguing way to deal with the problem. A new trial by Excalibur, a Time-Warner subsidiary, linked up 400 homes in Akron, Ohio, to cable modems on September 10, and plans to add another 1,000 homes soon.

Cable modems work by stationing high-demand content close to users – the cyberspace equivalent of scattering tiny stores all around the country instead of forcing everyone to drive to one big shopping centre. Many of the backbone carriers say they are keen to link up with cable companies as part of a long-term traffic solution.

Possibly, a new pricing system will be needed if the Net is not to crash. Today, most surfers pay about $20 per month to get on the Net. The cyberspace fiend who hogs space by downloading complex video clips and sound bites from Malaysia pays about the same amount as the neophyte sending short-text messages to friends next door.

"In future, I think users will pay for [speed in the form of] priority delivery, just as people do at the post office," says Tom Evslin. "There will also be charges based on the distance data are travelling and how fat the package."

Cyber sightings

- Something that genuinely makes you stop and say "wow, that's useful" is all too rare on the Net these days. But one such site is Visa's ATM locator (*http://visa.infonow.net/usa.html*). This tells you where the three nearest automated teller machines to you are anywhere in the US (no such luck for Europe). The information is clear and helpful, and the interface tremendously user-friendly.
- Yahoo's Internet Life presents the observations of Dave Barry, the exceptionally funny Miami Herald columnist, on the world of computers, such as "The Evil Genius of MS-Dos" (*www.yil.com/yil/dbarry/index.html*). His regular column at the Miami Herald is also available online at *www.herald.com/tropic/barry*
- The National Security Archive (*www.seas.gwu.edu/nsarchive*) is an independent research institute based at George Washington University. Its site features its collection of declassified US government documents acquired through the Freedom of Information Act. Worth a look, particularly for the Cuban missile crisis and Nixon-Presley meeting material.
- The Internet Telephony Consortium (*http://rpcp.mit.edu/~itel*) is a multidisciplinary research group at MIT, the US business school. It covers the issues surrounding interoperability between the Internet and traditional telephony.
- A new site from the Tokyo Stock Exchange (*www.tse.or.jp/eindix.html*) will offer Topix data and other key market statistics, and a sectoral classification of Japanese and foreign listed companies.
- Fancy dinner at The Ritz? If you can't make it to the London hotel you can always take a look at the menu at the home page (*www.theritzhotel.co.uk*). Nicely done, down to the downloadable lobby pianist.
- The activities surrounding Ireland's presidency of the European Union, which ends in December, are publicised on a site (*www.irlgov.ie/iveagh/eu*) which links to other European information sources.

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Financial Times on the World Wide Web
www.ft.com

BUSINESS TRAVEL

Travel News • Roger Bray

Agents' Cuba ban

American-owned travel agency chains have been forced to stop sending clients to Cuba by the US Helms-Burton Act. American Express, for example, is advising business customers to book through other agents if they need to go there. Carlson Wagonlit has also been affected.

Another agent drawn into the controversy is UK group A.T. Mays, which is also owned by the Minneapolis-based Carlson Companies. Its 303 branches have been instructed not to sell travel to Cuba.

The company says: "We tend to sell travel to small businesses and Cuba is a marginal destination in any case. But we are talking to Carlson to see if there is any way round this." Helms-Burton paves the way for action against companies "trafficking" in or profiting from property confiscated after Fidel Castro's 1959 revolution.

Capacity curbs

Munich's gleaming and graceful new airport appears to have elbow room to spare. But according to Lufthansa it is running out of terminal capacity only three years after it opened. The airline has stated its intention of turning the airport into a major hub, bot planning vice-president Christopher Müller says there are too few aircraft parking slots where passengers can walk to and from the terminal via air bridges.

This could start hampering expansion as early as this winter. Lufthansa has already increased flights by 20 per cent since the airport opened in 1993. Meanwhile, the airport is working on plans to double its 18m capacity.

Smooth links

UK airline Virgin Atlantic, which starts flights between London and Johannesburg on October 2, has tied up a deal with South African carrier Sun Air to ensure its smooth onward connections to Durban and Cape Town. Passengers flying to those destinations need check in only once and both legs of the journey will carry the same flight code.

Virgin chairman Richard Branson says further connections will be established as state-owned Sun Air, which has been earmarked for privatisation, expands its route network.

Meanwhile, competition on routes between Britain and South Africa may be sharpened further by the launch of flights by leading charter carrier Britannia.

Shanghai plans

China has given the go-ahead for a huge new airport in Shanghai. Capable of coping with up to 20m passengers a year around the turn of the century, Pudong International could eventually have capacity for 70m passengers annually. The project reflects rapid traffic growth in China, where passenger volumes are increasing at twice the average rate for the booming Asia-Pacific region.

Crossair grows

In what will be a significant expansion for Switzerland's Crossair, next month the airline receives five new 50-seat Saab 2000 turboprops, starts new services, and introduces a two-class service on its jet fleet.

The two-class split follows a decision by Crossair's majority stakeholder, Swissair, that the smaller carrier should operate all its flights on aircraft with fewer than 100 seats.

"Demand for the change came from passengers connecting from Swissair's long-haul flights," says Crossair.

Likely weather in the leading business centres

First-class way to lose your shirt

Airlines insist that in-flight gambling will be just another form of entertainment, says Roger Bray

Next month, somewhere over Europe, the modern equivalent of an American riverboat gambler will earn a footnote in commercial aviation history. Courtesy of a royal flusb, perhaps, or a paired king and ace, some lucky passenger will become the first to win a band at electronic in-flight gambling.

To the airline industry, which says it can see a potential new revenue jackpot worth almost $350m (£224.3m) annually to US carriers alone, the event will be cause for celebration. To guardians of moral welfare, euch as tbe Church of England, it will be a cause for concern.

Opposition, however, looks unlikely to prevail. The US government, under pressure from international airlines, is reviewing its ban on gambling in the air, and the UK Gaming Board, while uneasy at the prospect of sudden vertical expansion of casino gambling in the skies over Britain, admits that in-flight wagering is not against UK law.

Debonair, the small UK carrier, looks like being first off the blocks, installing gambling facilities in its BAe 146 jets from next mooth. Swissair still plans to be next, with the first of its fleet fitted out by November. And, by the end of the year – or early next – Singapore Airlines bopes to have started a trial to see bow acceptable gambling is to its customers.

The key to the opening of tbe casino door aloft bas beeo the development of ioter-active in-flight entertainment systems. Increasingly, tbese will allow travellers to view videos on demand, interrupting them at will to play electronic games and shop from their seats.

Gaming is a byproduct of these developments. But some carriers have encountered glitches. Britain's Virgin Atlantic is one operator which feels that the technology has yet to be proven, and United Airlines is suing GEC-Marconi, alleging that the equipment it ordered did not fulfil expectations.

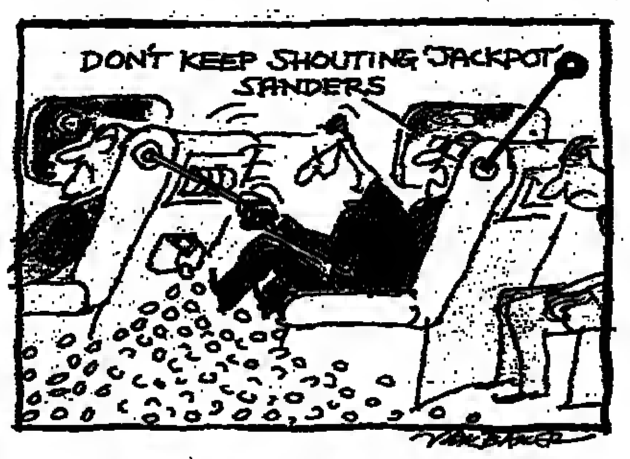
The moral objections to in-flight gambliog sound less tban clear-cut, especially in an era of expansion of gambling internatioonally as governments scramble to raise revenue by legalising lotteries and eocouraging the growth of all forms of casino (and other) gambling.

But such objections remain a consideration. The Church of England says it would be "worried at any increase in pressure on peopls to take part in sucb activities, which we doo't regard as a constructive use of money".

And Tom Kavanagh, secretary of the UK Gaming Board, says: "It's not something we welcome. In this country, casioo and machine-style gamhling is only allowed in controlled premises. From what we gather, airlines would be offering tbat sort of gambling on aircraft, where they have a captive audience. People could be enticed into losing large amounts."

Not so, say most carriers, who insist that they see in-flight gambling more as another form of entertainment rather than a source of reveoue, and say they will impose strict limits on stakes and the amount people can lose.

Witb one recent estimate suggesting that gambling turnover of $1m a year per wide-bodied airliner could be achieved, some may find the revenue claim implausible. But there is little doubt that most carriers will try to ensure, as one put it, "that our passengers don't get off flights without their shirts".



Singapore Airlines, for example, plans stakes down to $25 and a $350 ceiling on losses per flight. Winnings, on the other hand could be as much as $3,500. Passengers, however, ought to remember that it is much easier to lose $350 when gambling with a commercial operator – that is, one who deducts a percentage of the stakes to cover costs and generate a profit – than to win $3,500.

Although casino gambling has spread rapidly in the US since the days when it was mainly limited to Nevada and Atlantic City, airlines will be keen to maintain "product continuity". United, for example, says it will be important to ensure that gambling is acceptable on a variety of routes – and not just on routes between cities known for a swinging, pro-gambling lifestyle.

As one US airline executive puts it: "There are some sensitive areas, such as the Islamic countries, whereas on flights to Hong Kong [gambling] could be big business".

The biggest hurdle remains the attitude of US lawmakers. The US has forbidden American carriers to install gambling equipment since 1962. As recently as 1994 the provision was extended to embrace foreign airlines flying into and out of the US. The ban has helped persuade some airlines, among them Virgin, to tread cautiously. "We would like to do it", the airline says, "but before making the investment we would want to be sure it could happen on the vast majority of our routes, which are to North America."

In July, the US Senate approved the establishment of a nine-member commission to look at federal policies on various aspects of gambling, from betting across the Internet to playing poker in the sky. Washington's aim in extending prohibition to foreign-based airlines was to prevent US carriers from being disadvantaged commercially.

Ironically, two years earlier, Washington had permitted gambling on US-flagged ships in order to blunt the edge held by foreign cruise lines. This opened the way for an expansion of Mississippi-style riverboat gambling in the US, and now some vessels don't even bother to cast off before the first dice are rolled.

Under UK law, at least, it seems unlikely that the *jeux* will be *faits* until the undercarriage is up.

When policemen walk the crime beat

Bogus policemen are an increasing hazard for the unwary business traveller, Roger Bray writes. Hard on the heels of warnings to watch out for them in Romania comes a report that they are also on the crime beat in Iran. Their technique is to demand to see proof of identification, and then make off with a visitor's wallet.

Keep your passport separate from other valuables. Travellers should also declare all foreign currency taken into the country on a customs form or at the Tehran (Mehrabad) airport branch of the Bank Melli. Those who fail to do this could have their cash confiscated when they leave.

And risks continue to proliferate for travellers to the former Soviet bloc. Attacks and muggings are increasing on the streets of cities in the central Asian republic of Kazakhstan, including the capital, Almaty.

Coosular officials advise against using unmarked taxis and walking alone at night, and warn visitors who are forced to use buses or trains that they should always travel in groups.

● Travellers in eastern Africa are advised that armed bandits are operating in and around Serengeti national park, following confirmation of an attack on 25 Italian and American tourists on safari in the park last week. Three people were wounded, the Tanzanian authorities said.

The three were taken to Nairobi, Kenya, for treatment. The Serengeti plain runs north across the Tanzanian border into Kenya, where it becomes the Masai Mara game reserve. The Serengeti and Masai Mara are the most popular game-viewing areas in east Africa.

Tanzanian authorities said the attack occurred about three miles from Serengeti Sopa Lodge in the southern part of the 5,965 sq mile reserve. The apparent motive for the attack, carried out by about 10 bandits armed with with guns, clubs and machetes, was robbery. The Tanzanian statement said no one had been arrested but that more than 100 men were involved in the search.

In a second tourism-related incident, the Tanzanian Daily News has reported that three gunmen shot and killed a foreign exchange clerk last week at the Hotel Impala in the northern town of Arusha.

ARTS

OPENINGS

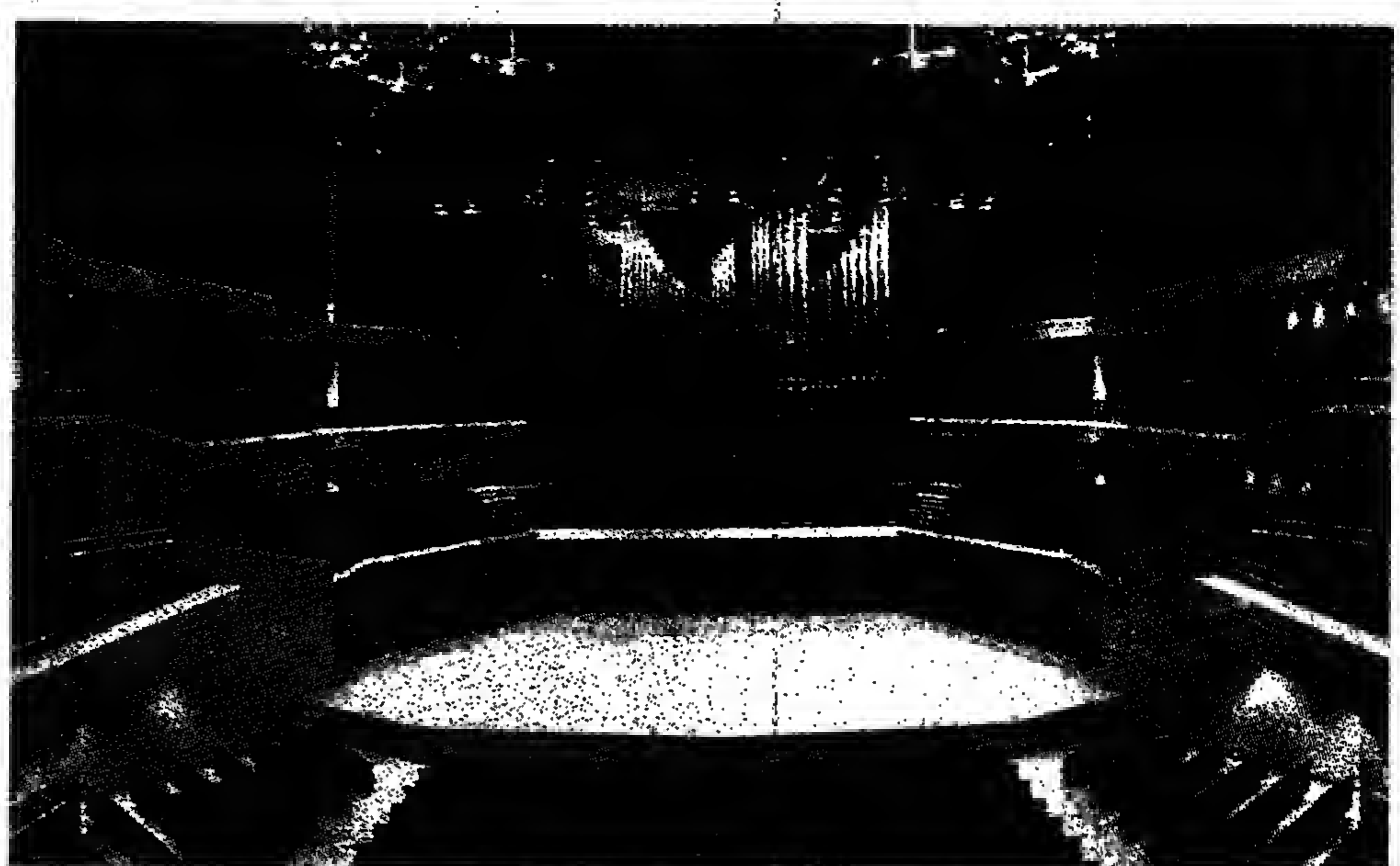
AMSTERDAM
... and Vermeer, Jan Steen ... one of the most popular ... of the Golden Age of Dutch ... – but, with the exception of a small ... the Mauritshuis in 1958, there has ... no full-scale retrospective. This has ... remedied by the Rijksmuseum. ... 50 masterpieces from public and ... around the world can be ... an exhibition opening on Saturday.

COPENHAGEN
As its contribution to Copenhagen's year as Cultural Capital of Europe, an exhibition which opens on Friday at the Louisiana Museum of Modern Art in Humlebaek places Picasso in the context of art produced by ancient civilisations of the Mediterranean.

More than 100 works by Picasso are placed alongside Mycenaean, Etruscan, Greek and Roman sculptures, vases and ceramics.

Be not afeard, but this hall is full of noises

Andrew Clark is baffled by the acoustics at the Hallé orchestra's inaugural concert in its new home



User-friendly: the auditorium of Bridgewater Hall, which manages to combine size with intimacy

It looks hideous and the acoustics are a failure, but the building itself is user-friendly. That is the initial impression left by Manchester's new £42m concert hall, which opened at the end of last week with two concerts by the Hallé Orchestra.

Bridgewater Hall is the latest in a string of large concert venues built in the British regions in the past 15 years, and it was probably the most sorely needed. The Hallé, the oldest professional orchestra in the UK, had put up with the privations of Manchester's Free Trade Hall for long enough, and the musicians are cock-a-hoop about their new home. Mancunian music-lovers are equally delighted that their city can finally take its place as a tour destination for international orchestras and recitalists. A new hall is a statement of self-belief: there is life in the old city yet.

The hall is nevertheless a disappointment. Set on a freestanding site next to a commuter road, its prow-like roof jutting above the main entrance, it looks like a squashed office development, all glass and grey prefab panelling. In a city that has preserved so many durable buildings from the past, the new hall looks cheap and out of context.

The architects, the London partnership of Renton Howard Wood Levin, have made amends with the interior. The reception areas, spread over several floors, are bright and spacious, and the 2,400-seat auditorium – a hybrid of the shoe-box and "vineyard" design – draws everyone towards the stage: few halls combine such size and intimacy.

But the ultimate test of a concert hall is its acoustics. Judging by the Hallé's inaugural programmes (and a final verdict must await comparison with other orchestras), anything below *mezzo forte* sounds grainy and ill-focused, and anything above is fiercely bright and congested. There is no bloom on the strings, and no proper after-resonance. Why did Manchester choose Arup Acoustics, which was responsible for the flat sound of the new Glyndebourne theatre, rather than Artec Consultants which made such a success of Birmingham's Symphony Hall?

Bridgewater Hall has none of Symphony Hall's in-built capacity for acoustical adjustment. A few baffle-boards have been scattered behind the side balconies – but it is hard to imagine how the sound could be significantly improved, short of rebuilding the walls around the stage and tinkering with the ceiling (as San Francisco was forced to do, at huge expense, with Davies Hall). That is the price for choosing an untested design.

A bad acoustic is just what the hall's management company, Hallogen, does not need. Hallogen is a joint venture between the Hallé Concerts Society and Ogden Entertainments Corporation, a US-based company that also runs Manchester's main pop venue. With the building costs already paid by public authorities, Hallogen has no debt to service: all it must do is break even. If it succeeds, Bridgewater Hall will be the first symphony hall in the UK to exist without public subsidy. And if Manchester can do it, there will be a clamour to know why others cannot do the same.

Vicki Gregory, Hallogen's chief executive, has the experience to make it work. She has put together a starry recital series and asked the pianist Joanna MacGregor to devise an "alternative" programme aimed at young and first-time audiences. Any deficit incurred by expensive visitors such as the Chicago Symphony Orchestra should be covered by profits from cheaper guests. There will be jazz and light entertainment, and the hall can also sell itself as a daytime venue, with facilities for corporate entertainment.

This should provide an extra source of revenue for the Hallé, which badly needs the money. Alan Dean, its chief executive, is confident that despite a 20 per cent increase in ticket prices, the new hall can lift audience figures. But the Hallé remains seriously underfunded, receiving a fraction of the local authority subsidy that Simon Rattle's Birmingham orchestra receives. Last year it made an operating loss of £75,000, to add to the accumulated deficit of £429,000.

But money is not the Hallé's only problem. Its four-year-old partnership with Kent Nagano still does not make sense: here is an orchestra with a heart, a tradition and a loyal, conservative audience, matched to a conductor who, to judge by last week's performances of Elgar, Walton and Stravinsky, is slick, shallow and unpassionate. The orchestra does not need more John Adams (a Nagano speciality), two of whose pieces were included in the opening concerts. It needs a music director who can revive its strengths in the core repertoire.

You do not have to look further than Yan Pascal Tortelier and the BBC Philharmonic, which will share Bridgewater Hall, for a conductor-orchestra relationship which works. So it is interesting that Nagano has extended his contract by only one year – hardly a vote of confidence in Manchester.

The two inaugural programmes were an odd mix. The first was all-British, prefacing the *Enigma Variations* and *Belshazzar's Feast* with a new work by George Benjamin. The second began with two more premieres, by Adams and Thomas Adès, and continued with four of Debussy's Baudelaire songs orchestrated by Adams and *The Rite of Spring*.

Benjamin's *Sometime Voices* for orchestra, chorus and tenor soloist takes its text from Caliban's speech from *The Tempest* beginning "Be not afeard, the isle is full of noises". An atmospheric and subtly orchestrated piece, it compels attention from the opening whisper of sound on xylophone and mandolin, threading its way through forceful tenor phrases (William Dazeley, excellent) and *Daphnis*-like choral spirits into a perfectly-paced crescendo – before dying away in a trance. Less cerebral than Benjamin's other recent output, it is more substantial than its nine-minute length suggests.

Adams's *Slonimsky's Earbox*, a tribute to the Russian musical theorist Nicholas Slonimsky, is a minimalist showpiece, its repeated note sequences livened up by jaunty New World rhythms. Adès's *These Premises are Alarmed* is a three-minute musical joke – one worth telling, but over almost as soon as it starts.

Promenaders leave last night to the performers

Unlike his predecessor, Sir John Drummond, who was a "don't mess with the music" man, Nicholas Kenyon, the new director of the Proms, favours a "let joy be unbounded" approach to the last night shenanigans. Instead of being frisked for their hooters and tweeters before admittance, Saturday's last nighters were positively encouraged to let rip.

In the event they turned in a strangely subdued performance. They ducked and dived and swayed at all the traditional moments in Elgar's *Pomp and Circumstance*, and in Henry Wood's *Sea-Song Fantasia*, but there was only a half-hearted hectoring for conductor Andrew Davis's annual report on the season – the best ever, and prizes for everyone – and most of the rude noises, paper darts and streamers came from the toffs in the boxes.

But then the British are always self-conscious about being extrovert in public, particularly if the theme is patriotic. The great popular national anthems – "Rule Britannia", "Land of Hope and Glory" and "Jerusalem" – were sung with enthusiasm but with little emotion. It is bad form to be seen to care too much.

Anyone who believes that the last night encourages jingoism is talking nonsense: the obvious niceness and reticence hiding beneath the sea of flags demonstrates a suspicion of nationalistic fervour. Indeed there was a good sprinkling of EC, Japanese and German flags.

For a real expression of Britishness it was better to be in Hyde Park where, in a brilliant innovation, Kenyon had ordained an alternative Prom for the common people. There, 25,000 of the less pretentious tendency gathered with picnics, Union Jack hats, night lights, and oceans of good humour to listen to their own pop Prom, performed by the piano-playing Labeque sisters, flautist James Galway, and soprano Maria Ewing, followed by a relay from the Albert Hall.

This was a Radio 2 audience in the flesh and very sweet too. On a perfect summer evening classical lollipops are too cloying but unlike most divas Maria Ewing sings show tunes naturally and with feeling and was the star of the show.

No doubt about who were the stars in the hall. Felicity Lott and Ann Murray dominated the evening. Perhaps their good humour stifled the silliness of the Promenaders: how can you upstage wit and sophistication? When Dame Felicity got a grander bouquet than Ms Murray after their *Madam Butterfly* duet they indulged in some competitive badinage which even managed to make the notorious cat duet marginally amusing.

The Prom in the Park was a great success and must be repeated: the Prom in the hall is a safe and comforting national ritual; the Proms themselves have never been in better shape, as the almost 90 per cent capacity for the season proves. In them classical music flourishes.

Antony Thorncroft

As part of the crescendo towards the last night, the Chicago Symphony Orchestra took the stage for a pair of Proms on Thursday and Friday. Like most of the American "big five", it has managed to hold on to a prominent place in the world's orchestral hierarchy and can afford the pick of the top conductors.

To the Proms it brought Daniel Barenboim and Georg Solti, its music directors present and past respectively. They have been the main influence on how the orchestra played for a quarter of a century, so the Chicago sound is partly their making. Take a virtuoso orchestra of the American style, with plenty of beefcake in the strings and razzmatazz in the brass; fry with Solti's sizzling energy and stir in a thick sauce of Barenboim's rich romanticism.

That is the Chicago Symphony Orchestra that we have today, an undoubted world leader, even if its style can be an acquired taste. In Barenboim's concert – a contrasting programme of Schoenberg's *Five Pieces for Orchestra Op.16* and Bruckner's *Eighth Symphony* – the playing was bullishly confident, a weighty body of strings crowned at the climaxes by a massive brass chorale. But I missed the subtlety that European orchestras can bring to this music.

If Barenboim's concert was about triumphant power, then Solti's had fighting muscle. His performances of Beethoven's *Ninth Symphony* have always been strong on combative energy and the muscular Chicago strings really dig into the music for him. So much emphatic playing made hard work of the first half of the symphony, which became a dogged assault on Everest, and it was not until the finale that the performance suddenly sprang to life. Solti's magnificent sense of drama is undiminished.

With René Pape's impressive bass leading the solo quartet and an all-professional chorus made up of the BBC Singers and London Voices, the symphony's triumphant ending brought a tumultuous reception from the Promenaders. Faced with applause that refused to stop, Solti finally made a little speech, telling them they were the best audience in the world but now it was time to "Go home!" Yes – but only until next year.

Richard Fairman

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-5730573
● Ruslan and Ludmila: by Glinka. Performed by the Choir and Orchestra of the Kirov Opera with conductor Valery Gergiev. Soloists include Larissa Djadkova and Marina Shaguch; 2pm; Sep 21

■ BERLIN

CONCERT
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Deutsches Symphonie-Orchester Berlin: with conductor Vladimir Ashkenazy, pianist A. Lubimov, soprano C. Barainsky, mezzo-soprano S. Doufexis, organist A. Gast and the Ernst Senff-Chor perform works by Debussy, Ravel and Scriabin; 8pm; Sep 21

■ BONN

DANCE
Oper der Stadt Bonn Tel: 49-228-7281
● A Midsummer Night's Dream: a choreography by Youri Vàmos to music by Mendelssohn, performed by the Ballett der Stadt Bonn. Soloists include Vadim Bondar and Alexej Moussatov; 7pm; Sep 21

■ CHICAGO

THEATRE
Candlelight Dinner Playhouse Tel: 1-708-496-3000
● Seven Brides for Seven Brothers: by Kasha & Landay. Directed by David Perkovich and performed by the Candlelight Dinner Playhouse. The cast includes Kathy Voytko and Robert Gallagher; Wed 2pm & 8.15pm, Thu, Fri 8.15pm, Sat 4.15pm & 9.30pm, Sun 2.15pm & 7.30pm; to Oct 20

■ COLOGNE

CONCERT
Kölner Philharmonie Tel: 49-221-2040820
● Hermann Prey: accompanied by pianist Michael Endres. The baritone performs ballads by Carl Loewe; 8pm; Sep 19

■ DUSSELDORF

EXHIBITION
Kunstmuseum im Ehrenhof Tel: 49-211-8992460
● Bertram Jesdinsky: exhibition featuring works by this painter, sculptor and film maker, who died in 1992. The display includes large-scale paintings, sculptures, drawings, collages, installations, films and video works; to Oct 27

■ HELSINKI

EXHIBITION
The Museum of Foreign Art, Sinebrychoff Tel: 358-0-17336380
● Homage to Holy Alexander of Svir, the Great Karelian Saint: exhibition of artwork on the subject of Holy Alexander of Svir, dated between 1400 and 1600. The display includes icons, silk, gold, silver and pearl embroided textiles as well as objects made of gold, silver and gemstones. The works come from the collection of the Russian Museum of St Petersburg; to Nov 25

■ LEIPZIG

OPERA
Oper Leipzig Tel: 49-341-1261261
● Carmen: by Bizet. Conducted by Jörg Krüger and performed by the Oper Leipzig and the Gewandhausorchester Leipzig. Soloists include Cornelia Helfricht, Zsuzsanna Bazsinka, Louis Gentile and Tomas Möwes; 7.30pm; Sep 20

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6384141
● The Dream of Gerontius: by Elgar. Performed by the Bournemouth Symphony Orchestra with conductor Richard Hickox, mezzo-soprano Jean Rigby, tenor John Aler, baritone Peter Coleman-Wright and the London Symphony Chorus; 8pm; Sep 20
Wigmore Hall Tel: 44-171-9352141
● Joji Hattori and Bruno Canino: the violinist and pianist perform works by Kreisler, Mozart, Beethoven and Brahms; 7.30pm; Sep 17

OPERA
Royal Opera House – Covent Garden Tel: 44-171-2129234
● Das Rheingold: by Wagner. Conducted by Bernard Haitink and performed by the Royal Opera. Soloists include Rita Cullis, Rosemary Johnson, Gillian Webster and Leah-Marian Jones; 7pm; Sep 21

■ MADRID

EXHIBITION
Biblioteca Nacional Tel: 34-1-5807800
● Ydioma Universal: exhibition focusing on Francisco de Goya's graphic work. The display features not only works by the Spanish artist, but also those by contemporary artists and old masters, including Ceán Bermúdez, Dürer, Carraci, Piranesi, Rembrandt, Rubens, Van Dyck and Tiepolo. The exhibition features more than 300 works, including prints, sketches, drawings, books and manuscripts; from Sep 19 to Dec 19

■ MUNICH

OPERA
Nationaltheater Tel: 49-89-21851920
● Die Meistersinger von Nürnberg: by Wagner. Conducted by Peter Schneider and performed by the Bayerische Staatsoper. Soloists include Adrianne Pieczonka, Silvia Fichtl and Bernd Weikl; 5pm; Sep 19

■ NEW YORK

EXHIBITION
Solomon R. Guggenheim Museum Tel: 1-212-423-3600
● Meret Oppenheim: Beyond the Teacup: the first US retrospective of the work of Swiss artist Meret Oppenheim. The exhibition spans more than 50 years of the artist's *oeuvre*, which has traditionally been associated with a single work, "Object (Le Dejeuner en fourrure)" (breakfast in fur). Bringing together more than 100 loans from Europe and the US, the exhibition includes sculpture, painting and works on paper, ranging in date from 1931 to 1985; to Oct 9

■ PARIS

CONCERT
Musée du Louvre Tel: 33-1 40 20 50 50
● Boje Skovhus: accompanied by pianist Helmut Deutsch. The baritone performs works by Brahms, Grieg and Zemlinsky; 8pm; Sep 20

■ SAN FRANCISCO

CONCERT
Louise M. Davies Symphony Hall Tel: 1-415-864-6000
● San Francisco Symphony: with conductor Michael Tilson Thomas, soprano Heidi Grant Murphy and the San Francisco Symphony Chorus perform works by Ives, Poulenc and Ravel; 8pm; Sep 19, 20, 21

■ SYDNEY

EXHIBITION
The Powerhouse Museum Tel: 61-2-2170111
● Treasures from the Kremlin: the world of Fabergé: five of the remaining Fabergé Easter Eggs designed and created by the Russian jeweller Peter Carl Fabergé are among the works featured. The exhibits come from the collection of the Armoury Museum at The Kremlin; to Sep 20

■ WASHINGTON

EXHIBITION
The Phillips Collection Tel: 1-202-387 2151
● Impressionists on the Seine: this exhibition explores the origins and context of Renoir's painting "Luncheon of the Boating Party" of 1880-81, for which no preliminary studies exist. The exhibition features 60 paintings from international collections by such artists as Renoir, Monet, Manet, Pissarro, Caillebotte, Morisot and Sisley; from Sep 21 to Feb 9

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Creditanstalt's sorry saga

The privatisation of Austria's leading bank has been stalled by politics, says **William Hall**

When Austria's council of ministers holds its regular weekly meeting tomorrow it will probably be forced to discuss one of the hardy perennials on Austria's political agenda – the privatisation of Creditanstalt, the country's most famous bank.

Since 1991 the Austrian government has been trying to sell its controlling 70 per cent voting stake in Creditanstalt, which was founded by the Rothschilds to finance the industrialisation of the Austro-Hungarian empire.

In its heyday at the turn of the century, it was one of Europe's biggest banks. But now it has been reduced to little more than a political pawn because Austria's various factions cannot decide on how to dispose of the government's shareholding, which is valued by the stock market at about Sch12.5bn (£780m).

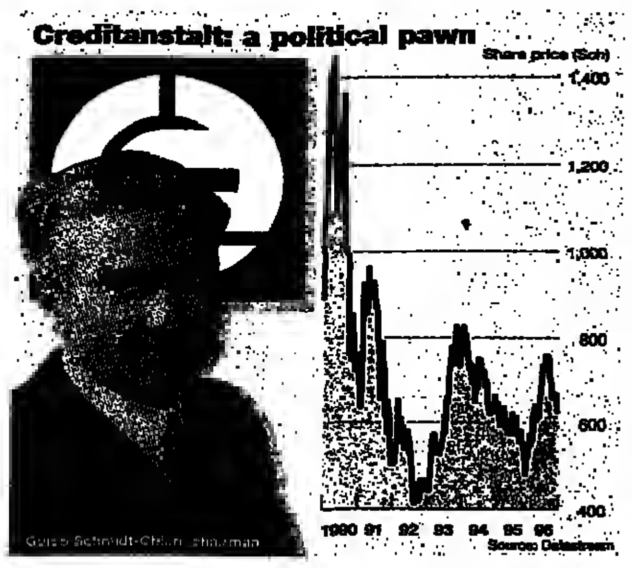
The uncertainty has taken its toll on the bank. Its shares have underperformed the stock market and it has not been able to raise extra capital since 1991. It has had to concede its position as Austria's banking flagship to the partially government-owned Bank Austria, a pushy savings bank which is now far more highly rated by international investors.

Plenty of reasons have been given for the delays. But the crux of the matter is that Austrian politicians want Creditanstalt to remain Austrian-controlled yet there is not enough capital in Austria for this to be possible.

At the moment there is just one bid on the table – an offer for only half the government's stake from an odd collection of investors led by EA-Generali, the Austrian arm of an Italian insurance company. The bid is being considered by Mr Viktor Klima, Austria's finance minister, but it appears to fall well short of the government's stated aim of maximising the value of its investment by selling all its 19.93m ordinary shares for cash.

The bid also fails to meet the government's second objective of using the Creditanstalt privatisation to help speed up the long-overdue rationalisation of Austria's

Creditanstalt: a political pawn



banking system. The country's oldest savings bank, First Austrian, had offered to merge with Creditanstalt, but dropped out of the EA-Generala consortium at the last moment because terms could not be agreed.

The political ramifications of First Austrian's sudden exit are as important as its financial impact. Top jobs in big business are often shared out along party lines: leading figures in Austria's two biggest political parties, the social democratic SPO, and its coalition partner, OVP, the conservative People's party, have been closely involved in the country's banks and largest companies.

Bank Austria is referred to as a "red" bank, because of its ties with the Social Democrats, while First Austrian is regarded as a "black" bank because of its links with the OVP. Creating an enlarged "black" bank to counter the growing power of Bank Austria was one of the political sub-plots behind First Austrian's planned merger with Creditanstalt.

First Austrian's exit is a dilemma for the OVP. It has always argued that there should be an "Austrian solution" to the Creditanstalt privatisation. Indeed, plans by a former socialist finance minister to sell control of Creditanstalt to Credit Suisse over two years ago had to be dropped because of opposition from the OVP. Agreement is vital because any change of ownership may have to be approved by the Austrian parliament.

Mr Klima is conscious that a sale to a foreign owner is even less acceptable now. Recent German takeovers of Billa, Austria's biggest supermarket chain, and Steyrermül Papier, the papermaker, plus signs that the German owners of Semperit may be planning to close down Austria's biggest tyre-maker, have fuelled popular concern that Austria is in danger of becoming an economic colony of Germany.

Apart from the problem that there is only a partial bid on the table, and the offer does nothing to aid banking rationalisation, the most sensitive question facing the OVP and Mr Klima is whether the latest bid will pass the Austrian test. Details of the consortium's shareholder structure have not been disclosed. However, EA-Generali, the consortium leader, is majority-owned by the Italian insurance company, Generali Assicurazioni, and the consortium includes two foreign banks, Banca Commerciale Italiana and Germany's Commerzbank. The only undisputed Austrian element in the consortium is a group of industrial companies, some of which have ties to Creditanstalt, and three regional banks in which Creditanstalt is the biggest shareholder.

The facts that Creditanstalt and EA-Generali have cross-shareholdings and that Mr Schmidt-Chiari, Creditanstalt's chairman, and Mr Dietrich Karner, his opposite number at EA-Generali, sit on each other's boards adds to suspicions in the investment banking community that the current consortium bid is a thinly-disguised attempt to impose a "Creditanstalt solution" which would guarantee the independence of the current management team.

First Austrian's presence in the consortium was critical because it at least provided the bid with some industrial logic and a solid Austrian shareholder. Now that it has departed, Creditanstalt's political masters have to decide whether to accept the current, partial offer, or start yet again.

Mr Hannes Androsch, a former socialist finance minister and ex-chairman of Creditanstalt, believes that the government should stop the privatisation process because a convincing offer has not been presented.

If the government really is desperate for the cash, it could always sell its remaining 17 per cent stake in Creditanstalt's main rival, Bank Austria, which is worth about Sch9bn (£562m), or nearly 50 per cent more than the current partial bid for the Creditanstalt stake.

It is an attractive proposition for Mr Klima, an ambitious politician who is regarded as the heir apparent to the chancellor, Mr Franz Vranitzky.

However, it would not remove the damaging question mark hanging over Creditanstalt's future ownership. That requires the kind of firm leadership that Austria's squabbling politicians have yet to show.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL ... +44 171-873 5938 (please set fax ...) ... http://www.FT.com

Standards of quality more than just a badge

From Mr Edward Hall.

Sir, I read with disbelief your article entitled "Why tie yourself in knots over badges?" (September 9). In this piece, Lucy Kellaway states that quality standards for business are nothing more than "dinky little symbols" to put on corporate stationary. Surely this misses the point entirely? No organisation, particularly leading City firms, would invest the time and effort required by these standards if they were not reaping rewards far more valuable than an additional logo on a piece of paper.

As Investors in People manager at the Central and Inner London North Training and Enterprise Council, with responsibility for implementing the IIP standard in the City, the companies I deal with daily tell me that "it's not the award that's important – it's the processes we go through that add value to the organisation".

In my experience, companies never commit to IIP because they view it as a status symbol. There are sound, commercial reasons behind committing to a standard which will provide a framework for reviewing how a business operates. Investors in People is flexible rather than prescriptive, enabling companies to take a step back and look at how each individual contributes to given business objectives.

Certainly, as Ms Kellaway suggests, there are other ways to measure success. Profitability, reputation and appearance are all parameters for assessing a company's worth. Reputation and profitability can change rapidly; more enlightened organisations are taking a longer term approach to people development to ensure quality is constant.

Edward Hall,
Central and Inner London North Tec,
80 Great Eastern Street,
London EC2, UK

US must not be allowed to hold world trade principles hostage

From Mr Willy De Clercq.

Sir, On behalf of my fellow colleagues in the European Parliament, I would like to express our profound concern with the extra-territorial nature of the Helms-Burton Act. Unlike, perhaps, any other US initiative, this law fundamentally questions European faith in the values of democratisation and the importance of economic liberalisation in civil societal development.

Joint cultivation of these values by America and Europe fostered the climate of expanding democratisation throughout the world, and contributed to the hope, among the newly enfranchised, for swift inclusion into a reigning post-communist liberalised political and economic order. Crafting the European Union has, unquestionably, furthered the cause for these values in our part of the world. Swift political and economic action of the Community has extended the hand of European economic co-operation to Spain, Portugal and Greece. Extension of economic benefits, coupled with their rapid inclusion into European democratic institutions boosted civil societal development and assisted in re-casting these societies. Rapid inclusion of the newly democratic societies of central and eastern Europe was advocated by both partners in an effort to nurture and sustain their belief in the efficacy of democratisation and economic liberalisation.

What is particularly onerous to Europeans is that Americans seek to apply the "carrot and stick" approach to valued partners, who, together with the US, helped to construct the reigning system of economic and political liberalisation at considerable political and social cost to ourselves. To lecture Europe on the need to combat authoritarianism is disturbing to a polity which seeks to restructure itself at considerable cost to include the newly democratised countries of central and eastern Europe.

My appeal is to our American colleagues in Congress, who gave birth to this legislation, to consider the nuance and import of legislation on those in the world to whom they profess friendship. While we support them in their efforts to democratise Cuba, we will oppose, rigorously, efforts to hold the principles of world trade and economic liberalisation hostage. Such a dual track policy is only appropriate, and it is one that I will advocate in the European Parliament.

Willy De Clercq,
Belgian Minister of State, chairman of the committee on external economic relations of the European parliament,
Belliardstraat 97-113,
B-1047 Brussels, Belgium

Diligent candidate for EU ignored

From Mr Christopher Johnson.

Sir, It is surprising that your leader "Polish promise" (September 13) echoes President Chirac's support for Poland's EU candidacy without mentioning, for example, Hungary.

To admit Poland but not Hungary would be to reward a wayward pupil and implicitly punish a diligent one. Poland caused much grief to western banks by failing to pay its debts, but Hungary has serviced its debt scrupulously, while reforming its economic infrastructure more thoroughly than its neighbours.

France has old, emotional links with Poland, from Chopin to Prime Minister Poniatowski. Its farming lobby is less enthusiastic to see Hungary's wine, foie gras and other agricultural produce incorporated into the Common Agricultural Policy, yet it has little to fear from Polish beetroot soup and beer.

Your conclusion that Mr Chirac "should now make clear that he has also considered the consequences of his argument" displays a delightful naivety about French negotiating tactics.

Christopher Johnson,
"Glendale", Arkesden,
Saffron Walden CB11 4HB

More important than a tax on cakes

From Mr J. Wilkinson.

Sir, Your editorial "The VAT cake" (September 11) concerning value added tax avoidance has inspired me to devise a quite straightforward, but nevertheless effective, VAT saving scheme which, for no personal reward, I am prepared to share with your readers.

The scheme is simple: instead of turning cakes into biscuits, try it the other way round and VAT savings will be as easy as falling off a chocolate log (for it is chocolate biscuits which attract VAT, while cakes are zero-rated).

On a more serious note you failed to address the real Jaffa cake issue which was the attempt by Customs & Excise to tax something which was zero-rated. I trust the FT does not advocate this behaviour, even at a time where government revenues are £5bn below forecasts, and I respectfully suggest that your time would be better spent questioning new proposals to prevent taxpayers from recovering VAT which has been overpaid as a result of Customs' misunderstanding of UK VAT legislation.

J. Wilkinson,
68 Queens Road,
Feltham,
Middlesex TW13 5AR, UK

The fashion for focus can go too far, argues **Tony Jackson**

A failure of managerial nerve

In today's corporate world, it seems, slim is still beautiful. Last week BTR, the UK conglomerate, vowed to shed 37 businesses, like so many pounds of unsightly fat. British Airways is looking at contracting out various operations, such as engineering, maintenance and baggage handling. A string of other companies, including Unilever, the Anglo-Dutch consumer giant, has announced disposal plans.

From a managerial viewpoint, the common theme is focus: the attempt to pare the company down to its essential functions. The world of business, we are told, is competitive as never before. Companies must therefore devote all their energies to the things they do better than anyone else.

While this is true as far as it goes, there is a less benign interpretation. Assuming the businesses being sold by BTR and Unilever are viable, someone still has to run them. Equally, someone still has to perform the functions being hived off by British Airways. Focus is all very well: but could it be that some companies are suffering a failure of managerial nerve?

Mr Bob Gunn, head of the US consultants Gunn Partners, points to the example of a multinational oil company which handed over the entire accounting function for its North Sea operations to a big management consulting firm. The consultants found it possible to reduce staff drastically, and made a correspondingly fat profit on the contract. But why, Mr Gunn asks, was that profit not captured by the oil company itself?

That question can be rephrased in terms of one central problem: defining what is really essential to the business. This is often one of the hardest tasks facing management. It is made no easier by the fact that the answer tends to change.

Take, for example, the newspaper industry. It was once thought essential for newspapers to own their printworks, since the production process was too complex and critical to entrust to others. The advent of digital technology has changed that. The *Financial Times*, which once produced its entire worldwide print run at its plant in the centre of London, now owns no printing plants at all.

What about British Airways? In fact, the airline industry has a better case than most for paring its operations down to the bone. One could argue that BA's essential assets boil down to just two: its right to fly on certain routes and its brand name.

Commercial air travel is essentially an undifferentiated commodity. Suppliers depend on the same two aircraft manufacturers, Boeing and Airbus, and the same three engine makers. All offer similar quantities of legroom, food and entertainment, and use the same airports.

Already, BA relies on outside suppliers for its security and cleaning. It does not own many of its aircraft, and on some minor routes it even employs other airlines to fly under the BA livery. All that matters is the brand name, with its promise of a certain standard of service, punctuality and safety.

> It pays not simply to hand services over to someone else, but to retain the power to improve and modify them. British Airways, it seems, agrees

There is a parallel with one of the most potent brand names of all, Coca-Cola. Popular mythology says the essential asset of Coke is the secret recipe. In fact, that is merely part of the mystique of the brand. In practical terms, it would doubtless be possible for Coca-Cola to contract out the manufacture of the basic syrup, as it does the business of adding fizzy water and putting the result in a bottle or can.

However, Coca-Cola also illustrates the *limits* of the principle. In a recent article in the US magazine *Chief Executive*, Mr Roberto Goizueta, the company's highly regarded boss, recalls that in his early days some 15 years ago, the company found it necessary to reverse gears and involve itself more closely with its bottlers.

"In the past," he said, "we thought of [the bottlers] as our customers, rather than our partners. Consequently, we applauded their success or criticised their failures, but never did anything about them."

Now, by contrast, Coca-Cola makes a practice of taking equity stakes in its bottlers around the world, as a means of establishing a clear community of interest.

In other words, it pays not simply to hand services over to someone else, but to retain the power to improve and modify them. British Airways, it seems, agrees. Though details are still unclear, it seems likely it will invite equity participation by outsiders in its engineering business, while retaining effective control.

What about companies which shed whole businesses, such as Unilever or BTR? Here again, much depends on circumstance. At an early stage in its development, Unilever was a classic case of vertical integration, owning everything from palm oil plantations in Africa to oil mills and retail chains.

All that has passed into history. In a world of increasing expertise, others can be trusted to specialise in providing raw materials or shipping the end product. Unilever's essential assets are increasingly defined as a portfolio of strong brands and the means to produce them cheaply and efficiently.

As for BTR, the jury is still out. The conglomerate principle is in disrepute, at least for now, and a new generation of managers at BTR finds it necessary to redefine the company as a focused operation.

Since BTR will still be highly diverse, this may be as much a matter of presentation as of substance. In practice, the programme appears to mean selling businesses which make an unsatisfactory return on capital. Those who buy them will do so in the belief that they can do better. Again, the same principle applies. If they are right, why is BTR so sure that it cannot do the same?

How long the fashion for focus endures is a matter for debate. In the US, the cycle of selling off peripheral businesses is much further advanced and may be near its end. In such circumstances, the acquisitive appetites of managers revive. Last week also brought the news that Gillette is to pay $7bn (£4.5bn) for Duracell International, thus broadening its focus to include batteries.

In Europe, by contrast, the fashion for disposals and outsourcing has doubtless further to run. But however the pendulum swings, managers are left with the same basic obligations. Whenever possible, they must fix what is broken themselves; and they must extract value for their shareholders, instead of handing it on to somebody else.

COMMENT & ANALYSIS

FINANCIAL TIMES
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Monday September 16 1996

Bonn tightens its belt

Chancellor Helmut Kohl won a series of vital votes in the German Bundestag on Friday, clearing the way for curbs in the cost of the welfare state. The whole austerity package is an essential precondition for Germany to fulfil the Maastricht criteria for European economic and monetary union. These were votes the Chancellor *had* to win, and he did so with an impressive demonstration of discipline within the ranks of his ruling coalition.

Undoubtedly, the need to meet the Maastricht criteria has concentrated minds in Bonn. It has focused attention not just on short term budget rigour but on the much more important structural reforms needed in the high-cost, high-benefit German economy.

Spending cuts have been imposed on almost all government departments to meet Mr Theo Waigel's planned DM25bn savings. In addition, the finance minister intends to carve DM20bn out of the state insurance and pension funds, and cajole the 16 Länder into cutting a further DM25bn from their spending plans. He is by no means home and dry.

This is harsh medicine for a country which has got used to its comfortable lifestyle. But it is overdue. For example, Germany's generous sickness pay has produced an abnormally sickness-prone workforce. Cutting the entitlement should help. Raising the pensionable age for women may be unpopular, but it is surely a more sensible reaction to rising life expectancy than the current trend to early retirement.

Another controversial measure will reduce job security in small businesses. Paradoxically, it is intended to boost job creation, by making it less risky to hire new workers. The move encapsulates the gamble on which the whole package is based: that it will create jobs, while curbing spending.

Much of Mr Waigel's planned savings are supposed to come from ending all subsidies to the Federal Labour Office, which doles out unemployment benefit. But if unemployment does not drop sharply from the present 4m mark, the only way to cut the subsidies will be to reduce benefit payments.

Mr Waigel's other gamble is on the good sense of the Länder, most of them ruled by the opposition Social Democrats. They have so far failed to produce spending cuts which come near their DM25bn target. They are also resisting his tax reforms, and his plan to delay an increase in child allowances. They will undoubtedly demand a price for their acquiescence.

Friday's vote in the lower house was therefore an important psychological signal that Germany is aware of the need for far-reaching reforms. But getting there is not guaranteed. It will still be a long and painful process.

Airbus's future

The plan by Airbus Industrie to build a 550-seat aircraft, the A3XX, will require changes to the way the European consortium operates. Airbus has said its existing shareholders – Aérospatiale of France, Daimler-Benz Aerospace of Germany, British Aerospace and Casa of Spain – cannot build the aircraft on their own. Other companies, from Europe and Asia, will have to be involved. Airbus has also committed itself to abandoning its non-profit making status, turning itself into a company responsible for its own financial health.

One aspect of Airbus practice is unlikely to change, however: European governments will be asked to contribute to the cost of the A3XX, which Airbus puts at $8bn. International agreements permit up to a third of development costs to come from state funds. But before they commit taxpayers' money, governments will need to establish some ground rules and ask some searching questions.

First, they will have to insist that there is no question of subsidising the A3XX. If governments are to invest, it must be because the project provides them with the prospect of a decent return.

The second question is whether the A3XX is the right aircraft. Its champions argue that Airbus needs to offer a complete family of aircraft if it is to compete with Boeing. Airlines like to buy aircraft from a single manufacturer because it cuts training and maintenance costs. Airbus is at a disadvantage because it has no aircraft to compete with the Boeing 747, which carries 400 passengers. Boeing is planning to "stretch" the 747 to create an aircraft with 550 seats. Hence Airbus's desire to build the A3XX to compete.

However, it is not clear that the market for 550-seaters will be big enough to make the A3XX a commercial proposition. Boeing says it expects airlines to buy 470 aircraft with more than 500 seats over the next 20 years. Airbus says the figure is 1,400. What should worry European governments is that the Airbus partners' individual figures are closer to Boeing's.

An alternative would be for Airbus to consider how it can compete against the heavily used 747 rather than the stretched version, which will almost certainly find fewer takers. Airbus is already considering stretching its A340, increasing its capacity from 300 to 370 seats. A stretched A340 is not a complete answer as it is slightly smaller than the existing version of the 747, but it would extend the Airbus product range. European governments should be asking whether this project should not be given priority over the A3XX.

Golden eggs

Only a Mafia boss would expect, after taking his goose to market, to carry on collecting eggs. However, this is, in effect, what the UK government has achieved from its privatisation programme during the last 12 years.

Those who accused the Conservatives of selling the family silver picked quite the wrong cliché. Silver brings no income, except, perhaps when it is on the broker's lunch table. Privatised industries on the other hand, have nearly all made substantial profits.

Some, including the Labour party, have criticised the large rewards to shareholders and senior executives. But they have often neglected to consider the proportion of gross earnings which continued to flow back to the public purse via corporation tax, interest and repayments of debt.

A study published this weekend by the Centre for Policy Studies, a Conservative thinktank, shows that since 1986-87 the government has received a net inflow of almost £80bn, or an average of £8.8bn a year, from the industries that are now fully privatised.

Only half of this came from their sale. About £7bn of it represented transfers to the government by industries that had not yet been privatised. That still left an average of £3.6bn a year which the privatised companies were paying back to the government. This was 10 times the benefit received in the five years up to March 1984, when the geese were all nationalised.

These figures leave room for argument, for example about the extent to which the industries were fattened for sale, the role of the debts which they carried at privatisation, and whether profits since then were excessive.

Nevertheless, it is clear that the large efficiency gains which resulted from privatisation have been shared not only between customers and shareholders but to a significant extent with taxpayers.

The benefit to the exchequer will decline, as government debts are repaid and as profits are more closely controlled by regulators. But the flows are likely to be higher than before privatisation.

For these reasons, the Labour party's plan for a windfall tax on the privatised utilities would be perverse as well as unjust. The new government will need to keep the golden eggs rolling into its coffers.

This will happen only if the industries retain an incentive to make profits, a concept still new to Labour.

The FT Interview · Eddie George

Walking the Emu tightrope

The Bank of England governor talks to **Gillian Tett** and **Andrew Gowers**

As the governor of the Bank of England mulls prospects for European monetary union this autumn, one word peppers his speech.

"Constructive," Mr Eddie George mutters, as he taps an elegant wooden table to emphasise his point. "Up to now the Emu process has been conducted in a constructive environment. I would very much regret it if that were to change."

The phrase is carefully chosen. But it still has a defensive ring. For as Germany and France press ahead with plans for a single currency, the euro, Mr George, who celebrated his 58th birthday last week, is juggling an increasingly delicate brief.

He is fighting to convince his fellow Europeans that the UK should remain at the centre of Emu preparations. But few now believe that Britain will be an early participant – and Mr George is apparently not among them. At home, he is struggling to sustain support for the UK government's "opt-out" from Emu – while reassuring the City that it will not suffer from the resulting political uncertainty.

Mr George's answer to these dilemmas is to call for macro-economic pragmatism: in an hour-long interview the word "constructive" crops up a dozen times. But there can be no disguising his unease at growing hints that the mood in continental Europe is shifting against the UK – even in hitherto polite debates between central banks.

The episode which has triggered his unease is a wrangle over a future European Union system for cross-border interbank payments, known as Target. Until recently, the UK had hoped for equal access to the system, even if it stayed outside Emu. But among central bankers in the European Monetary Institute – forerunner to a European central bank – France and Germany are insisting non-participants in Emu should face restrictions.

The threat has alarmed the City. Now, after two months of silent reflection, Mr George has entered the debate – to reassure UK-based banks. "There will not be serious implications for the City if access is restricted. There are lots of other possibilities for payment, like the Ecu clearing system and correspondent banking." Exclusion from Fedwire – the US Federal Reserve's same day money transmission service for member US banks – has not harmed the City, he adds.

Nonetheless, the Target dispute has stung – not so much for its technical or practical effects as for its political overtones.

"For the first time something has been introduced into the Emu discussion which is discriminatory for a non-monetary reason," Mr George says. "The French banks and some of the German commercial banks have explicitly argued: 'Aha! We can steal a competitive march.'

"This could change the nature of the debate. It would move from a constructive environment where people were all working together to one where people were in a different game of protecting national interests."

For these fears about the narrow question of Target highlight a broader problem: how the future "ins" and "outs" will relate in Emu.

Mr George insists – unsurprisingly – that a single currency must not divide Europe. And he still believes this can be prevented by a consensus to pursue stable macro-economic policies.

"Frankly, that consensus is what is critical for the 'ins' and 'outs'. If the 'ins' want to develop this as a truly European monetary union, rather than an exclusive group, they have to build on this consensus."

This requires co-operation from both the 'ins' and 'outs', he admits. Likely members such as France and Germany need to accept that inflation targets can be as effective a constraint for the 'outs' as a revived exchange rate mechanism. At the same time, he believes, the 'outs' must show a commitment to responsible economic management. "If our exchange rate did gyrate as a result of deliberate, persistent policy," he says, "I think they would feel justified in taking action against us to protect the single market."

However, on Target the debate seems deadlocked. France and Germany continue to demand restrictions. And Mr George shows little flexibility. "We are not in the business of compromise over Target – we are talking about principle."

The trouble is that, as Emu draws closer, the voice of those who are unlikely to be founder members will inevitably carry diminished weight.

Mr George denies he is losing influence over the process. "I don't think that there is a loss of leverage for the UK at the moment," he says. "If you have a valid point to make, everyone has been prepared to listen to it." It is also true that the Bank has won plaudits from other EU central banks for its contribution to Emu preparations.

But the governor is aware that the negotiations are now moving from the technical to the political arena. And here, the UK's ambiguous stance towards Emu risks undermining its influence.

In any case, Mr George does not disguise his own doubts about UK membership: in casual speech he refers to the likely 'ins' as "they" rather than "we". And his views on Emu itself carry an increasingly sceptical tinge.

He fears, for example, that key countries such as France and Germany will miss the Maastricht convergence criteria that budget deficits and debt should fall below 3 per cent and 60 per cent respectively of gross domestic product in 1997. "I think it is less likely [that the conditions will be in place for Emu] than it looked a year ago," he says.

As a result he worries that the pressure will be on to fudge the criteria, which would only make matters worse. "You can understand the political impetus – but people have to understand that if the economies go wrong it will produce political tensions rather than removing them.

"Even if you manage to meet the criteria there are still risks that convergence will not be sustained. But if you don't even meet the criteria you are escalating the risk all the time. If the judgment in the spring of 1998 is that the convergence is not sustainable then the sensible thing for the ministers to do will be to delay."

Emu enthusiasts fear this could provoke market turbulence or tempt governments to abandon budget cuts. But Mr George dubs these "second-order problems".

He adds: "It is not realistic to think that we can go on in Europe with 12 per cent plus unemployment in France and 8 per cent in Germany – that differential introduces a real tension.

"It is entirely conceivable that you could get tensions developing between Germany and France because you start with these potential tensions reflected in the unemployment rates. That could lead to considerable difficulties in agreeing monetary policy, or pressures for fiscal transfers – and could give succour to protectionism."

In these circumstances, he believes the UK should remain outside. "I don't know that I would want to get mixed up in those risks. It's a question of risk reduction."

Does that mean the UK should make clear now that it does not plan to be a founder member? Mr George recoils, saying he "cannot see any upside" in ruling out UK participation now. "I think we should be as constructive and co-operative as we can."

The problem with this ambiguous position is that it does not help the Bank with its other task of preparing the City for Emu. Foreign banks have warned the Treasury that political uncertainty about Emu could harm Britain's financial sector. And the Bank has faced criticism that it is not providing the City with clear leadership over Emu.

The Bank insists it is doing extensive work behind the scenes. "I don't think that any judgment that London is lagging behind [in preparations for Emu] is based on anything other than emotion," says Mr George.

But he accepts that UK business is showing new concern about the implications of Emu. "At the beginning of the year, with Chancellor Helmut Kohl's victory in Germany's local elections, there was a change in mood. The perception was that there was a renewal of political commitment from Mr Kohl and French President Jacques Chirac – even though the economics were, if anything, turning in the opposite direction. As more work was done, that identified issues which needed to be resolved – which focused peoples' worries."

Mr George is keen to dispel the concern. The Bank's research, he says, concludes that the City will flourish even if it stays outside Emu: "The potential pluses for the City are very considerable in relation to the potential minuses.

"Our strengths are massive. Why do you think all these people are coming here, like Deutsche and Dresdner in relation to investment banking or Citibank in relation to European treasury operations? They must assume that the odds are that Emu will happen and we will be outside – but they are still coming."

He admits his optimism is founded on two factors. The first is that the City is ready to handle the euro in 1999, at least as a foreign currency. He will address this today with the publication of a report on the City's Emu preparations. "I see no reason why we won't be ready," he argues.

The second factor, though, is a hope that the European debate will continue "in a constructive, mutual-interest kind of way". And this problem is not within his control alone.

"Target suggests the game may now be changing," he murmurs, speaking with a central banker's deliberation. "I don't believe this has to change. I would very much regret it if it does. It would be in nobody's interests if that happened."

· OBSERVER ·

Can we see the books?

■ Andrew Crockett, the former Bank of England boffin running the Bank for International Settlements, has a problem.

The hunt for Nazi gold in Switzerland is hotting up. It can only be a matter of time before some publicity-seeking politician – maybe Alfonse d'Amato, chairman of the US Senate banking committee – summons Crockett to explain where the BIS [illegible] its share of the Nazi [illegible].

The Swiss National Bank, the only other institution allowed to import gold into Switzerland during the second world war, said on Monday that perhaps it didn't know as many – or as [illegible] questions as it should have [illegible] during the origin of its German gold purchases.

But at least the SNB has opened its archives to researchers. The BIS, owned by the world's major central banks, is keeping its wartime secrets under lock and key. Perhaps there's good reason: during the war the head of banking was a German Nazi, the secretary general was an Italian, and Per Jacobsson, the chief economist, has been accused of leaking the Allies' financial plans to the Germans.

Harry Morgenthau, the US treasury secretary at the time, was unhappy with the BIS and wanted it abolished. The final recommendation of the 1944 Bretton Woods Conference was that the BIS should go. But Morgenthau fell out with President Harry Truman and resigned, and the BIS survived. Thomas McKittrick, BIS president during the war, left to be a senior executive of Chase National Bank; Jacobsson eventually became a famous managing director of the International Monetary Fund.

The BIS had a good war. Just how good, we'll never know – unless Crockett does the decent thing and opens up its files.

Heavy weather

■ Northern Italians often moan about state bureaucracy and inefficient public services, accusing Rome's politicians of being corrupt and its civil servants of idleness. If the weekend's journey down the River Po by Umberto Bossi, leader of the secessionist Northern League, is anything to go by, northerners are probably better off with what they already have.

The Bossi demonstrations and meetings were organised with rather less slickness than the average Neapolitan post office, with a punctuality emulating the state railways and national airline Alitalia – on bad days.

But Bossi got one thing right. Ten days ago when meteorological prospects looked gloomy, he assured his followers that the weather would be fine. And it was. So if his dreams come to naught, he could always turn to weather forecasting.

Network oracle

■ Larry Ellison has returned from vacation tanned as a hot-dog and firing on all barrels on behalf of his cheap network computer idea.

The Oracle database chief is now on tour, proclaiming he's surprised his idea "has proved so controversial". Since all he has to show is a well-thumbed dummy of the dream machine he intends shall house $25-worth of Oracle software, "controversial" perhaps isn't the word.

But Ellison is hot on propaganda. He reckons his idea will soon make dinosaurs out of web browsers, and that the stock market has got it all wrong about glamorous Internet-based companies. The time is nigh for his NC: a stripped-down personal computer which uses programmes and storage from remote servers accessed via the Internet. "Everyone will have it," says Ellison.

Price – or the lack of it – is the thing, according to Ellison. Early this year, when he launched the idea in consort with some hardware companies, the NC was going to cost $500. Now, he says, consumer electronics companies will have basic models at $300, while PC-makers' "premium" versions will cost $700.

But best of all, telephone companies and other service providers will be giving them away free within six months and making their money on services, he claims.

Free? Pterodactyls might fly.

Money in muck

■ Theo Waigel, lord of Germany's creaking state coffers, is a trifle exasperated by local authorities; he feels they aren't doing enough to privatise or save money. But signs are emerging that Waigel's message about better managing of resources is finally getting through.

Take Hanover. Along with the rest of the state of Lower Saxony they conducted local elections yesterday. Because conventional ballot boxes are too expensive, Hanover decided to use rubbish bins instead. Five hundred specially customised big yellow trash containers were brought into action.

Each bin costs just over DM50, while ballot boxes cost DM170 a shot – a saving of almost DM60,000. Waigel *will* be pleased.

The Financial Times 50 years ago

Future World Trading
Future trading conditions in the world's markets were discussed by Mr. Percy Lister, chairman of R.A. Lister and Co. before the British Engineers Association. Mr. Lister recently completed an 80,000-mile tour investigating the conditions of markets for the products of British capital equipment engineers. Here are some of his comments on countries visited.

CANADA – This great Dominion has come out of the last great war in a sounder financial and economic position than most parts of the Empire. The benefits accruing to this fundamentally great primary producing country, as a result of our buying Canadian bacon during the war and the consequent introduction of mixed farming into those wheat producing areas of the Dominion has done much to overcome one of Canada's pre-war great domestic economic problems.

UNITED STATES – The spending and purchasing power of the American people has reached a phenomenally high level, and while much thought and talk is given to American export targets, the fruits awaiting purchasers of capital and consumer goods, rich as they are in their domestic market, is bound to attract the prior attention of American manufacturers.

FINANCIAL TIMES
Monday September 16 1996

Still-birth of a new nation

David Lane in Venice witnesses the lacklustre "secession" of Padania

Mr Umberto Bossi, leader of Italy's separatist Northern League, arrived in Venica yesterday at the head of a flotilla of boats and declared the independence of the Padania Federal Republic from the Italian state.

Although he had forecast that 1m people would turn out during three days of rallies to witness the birth of o nation, it was a still-birtb and only 18,000 were present to hear his speech.

The secessionist declaration was the climax of three days of gesture politics by the abrasive Mr Bossi. While the rest of Italy was dismissive, some in the putative state of Padania – an ill-defined area of northern Italy – found it hard to summon interest.

Asked if he had felt tha "Bossi effect", a barman in Boretto, a village oo the banks of the River Po and allegedly Northern League to the core, replied: "No, I slept quite happily."

The indifference came as a relief to the government which had been concerned thet demonstrations linked with Mr Bossi's three-day progress from Turin down the River Po – seen as the artery of Padania – might turn violent.

Although many commentators have ridiculed Mr Bossi's secessionist threats, others view them as an assault on the unity of the Italian state. Mr Romano Prodi, the prime minister, had warned that Rome would be "vigilant but inflexible".

The events of the weekend took on a sour note for Mr Bossi with an announcement by magistrates in Turin, in north-west Italy, that they would open investigations into Mr Bossi's declaration and the *camicie verdi*, or green shirts, the Northern League's controversial militia. On Saturday Mr Bossi announced the creation of e "national guard" of Padania.

In his address from the Bank of the Seven Martyrs on the Grand Canal, Mr Bossi said that the Padania people, were a "natural, cultural and socio-economic community". "Padania is an independent and sovereign federal republic," Mr Bossi said. He claimed the Italian state was guilty of "colonial oppression, economic exploitation and moral violence" and said "thieving" Rome had annulled all forms of autonomy and self-government.

Mr Bossi said northern money had been siphoned off to featherbed a corrupt and idle south, the *mezzogiorno*.

There were few visible signs of support for northern independence yesterday in the prosperous agricultural towns and villages alongside the Po. The only clashes were between police and extreme rightwing supporters of a united Italy. Mr Gianfranco Fini, leader of the rightwing National Alliance party, ettracted at least 150,000 supporters in Milan in a carefully prepared march for unity.

The substantial police forces marshalled on the banks of the Po, the security forces on bridges and the police underwater teams were barely used.

The weekend's events illustrated Mr Bossi's capacity for staging political theatre, but may also mark a watershed: even ardent backers attending the rallies said secession is not necessarily the aim and that greater regional autonomy would be sufficient.

US adopts 'wait and see' position over Iraq action

By Patti Waldmeir in Washington and Roula Khalaf in London

The US appeared yesterday to back eway from another immediate confrontation with Iraq. A senior US official said Washington would closely monitor the actions of President Saddam Hussein, but would not be "pressed into overreacting".

Mrs Madeleine Albright, the US ambassador to the United Nations, said the US did not believe it would face further provocation from Iraq.

"It looks as though Saddam Hussein is not going to do anything else," she said in a television interview, adding the big US military presence in the Gulf represented "a very strong deterrent" to Baghdad.

After stepping to the brink of confrontation last week, when Defence Secretary William Perry threatened "disproportionate" action against Baghdad, the US administration yesterday put officials on national television to outline a "wait-and-see" attitude to further attacks. They hinted the US might refrain from further retaliation, unless provoked.

Meanwhile, Washington's efforts to present e united front against President Saddam received a series of setbacks yesterday, when Mr Perry was rebuffed by Saudi Arabia and Kuwait during a visit to the region.

Saudi officials said they were unavailable for a morning meeting with Mr Perry, forcing him to return to the Kingdom later in the day. Reflecting Saudi Arabia's desire to defuse Iraqi-US tensions, Prince Sultan, the Saudi defence minister, has said he doas not expect further US attacks against Iraq and described Baghdad's new position as "reasonable".

Kuwait withheld permission for the stationing of 5,000 US ground troops in the country after Washington had already announced their deployment. Mr Warren Christopher, US secretary of state, said he expected Kuwait to give tha go-ahead for the troops "in dua course".

Leading Republicans sought to exploit the Kuwaiti refusal. "This situation is in terrible disarray. The credibility of the US is at stake," Sen John McCain, Arizona Republican, said.

Mr Perry won some support in Bahrain, which agreed to host 26 American F-16 jet fighters, according to the local state news agency.

US weakness, Page 4

Bank warns of Emu rift

Continued from Page 1

treaty, and said a delay would be preferable to dilution.

- Believed the City of London would reap large benefits from monetary union even if Britain was not a founder member.
- Disagreed with Eurosceptics who say Britain's Conservative government should rule out participation in Emu before the next election.
- Had only slight disagreements with Mr Kenneth Clarke, UK chancellor, over the level of interest rates. Their differences were "very small – within the margin of error, though we continue to hold to our view [on monetary policy] firmly".

Mr George's remarks come as the Bank publishes a report which says Emu preparations in the City are well advanced, and expresses confidence that the UK financial sector will be able to handla the euro by 1999.

Boom in corporate law work

By Robert Rice in London

The UK's leading commercial law firms are enjoying a boom in corporate work unseen since the late 1980s supported by the increasing success of their international operations.

According to the annual survey conducted by Legal Business magazine, published today, Clifford Chance, one of the top five UK legal firms, earned £92m ($143.5m) or one-third of the firm's gross revenues from its foreign offices in 1995-96.

The study says Clifford Chance's success abroad, the result of 20 years' investment in overseas offices, could encourage the two arch conservative UK legal practices, Slaughter and May and Linklaters, to expand their foreign operations to keep pace.

Slaughter and May remains the most profitable UK law firm, however, with average profits per partner of £460,000.

The top 100 firms billed £3.25bn in fees in 1995-96, an increase of £250m over the previous financial year and £500m more than in 1992-93.

According to the survey, the highest-paid lawyers in the City are at Slaughter and May where senior partners earned £560,000 last year. Those in their first year as junior partners earned £280,000.

London financial circles believe that the study has considerably underestimated the earnings of senior partners in the top firms.

One partner from a top five firm expressed relief that the figures for his firm were low, but said the high earnings were justified.

"When you take account of the fact that partners must provide for their own pensions, don't get bonuses or share options and can't limit their liability, their earnings don't seem out of line with those of senior company directors," he said.

The survey shows that the top five firms, Clifford Chance, Linklaters & Paines, Freshfields, Allen & Overy and Slaughter and May, have increased their lead over the rest. Lovell White Durrant, the sixth-placed firm, suffered a fall in revenues from £115m in 1994-95 to £113m.

Bosnia poll endorsed

Continued from Page 1

dency – are expected to emerge today.

After shuttling between Bosnian President Alija Izetbegovic and Serbia's President Slobodan Milosevic, Mr Holbrooke announced that the two Balkan leaders would hold their first bilateral summit in three weeks in Paris. Diplomats said that if the meeting went ahead, it would seal the establishment of full diplomatic ties between Sarajevo and Belgrade.

If the OSCE formally approves the election, UN sanctions against Belgrade, which were suspended after Dayton, will be lifted automatically within 10 days.

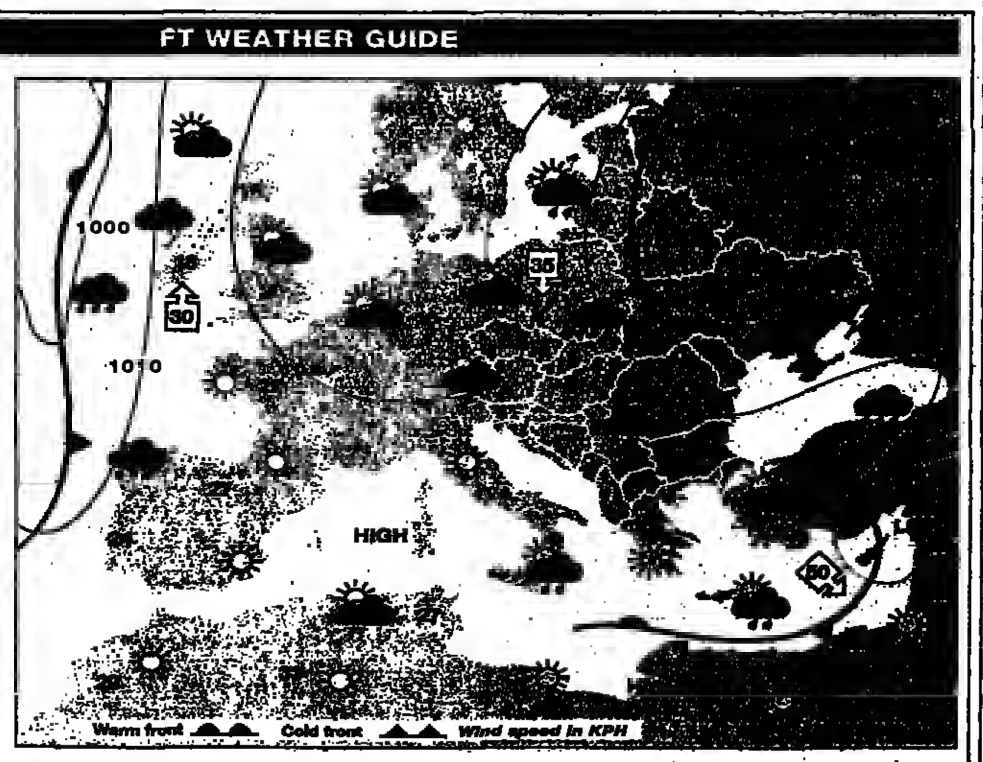
FT WEATHER GUIDE

Europe today

High pressure will strengthen over Norway, improving conditions over Scandinavia and countries around the North Sea. The area will be mainly dry with sunny periods and temperatures just below seasonal levels. An active low pressure system over eastern Europe will produce plenty of rain from north-eastern Europe into Poland. The Mediterranean will be mainly dry with sunny periods. Central and southern Italy will have a few thunder showers. Portugal will have heavy rain from the west at the end of the day.

Five-day forecast

Low pressure systems will move across southern Europe, triggering plenty of heavy rain and thunder storms during the week. High pressure will persist over northern Europe, producing mainly sunny skies.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius										
Abu Dhabi	sun 38	Beijing	shower 23	Caracas	shower 33	Faro	fair 24	Madrid	fair 26	Rangoon	shower 32
Accra	fair 28	Belfast	fair 16	Cardiff	fair 18	Frankfurt	cloudy 16	Majorca	fair 26	Reykjavik	rain 12
Algiers	sun 29	Belgrade	fair 13	Casablanca	fair 26	Geneva	sun 19	Malta	sun 28	Rio	fair 25
Amsterdam	fair 17	Berlin	cloudy 14	Chicago	fair 20	Gibraltar	fair 24	Manchester	fair 20	Rome	fair 24
Athens	thund 27	Bermuda	shower 28	Cologne	fair 18	Glasgow	fair 16	Manila	shower 31	S. Frsco	sun 22
Atlanta	fair 27	Bogota	fair 17	Dakar	cloudy 19	Hamburg	cloudy 15	Melbourne	rain 17	Seoul	sun 28
B. Aires	fair 20	Bombay	fair 29	Dallas	fair 32	Helsinki	fair 13	Mexico City	fair 25	Singapore	fair 32
B.ham	rain 30	Brussels	fair 17	Delhi	fair 31	Hong Kong	rain 28	Miami	fair 33	Stockholm	fair 14
Bangkok	fair 24	Budapest	fair 17	Dubai	sun 38	Honolulu	fair 32	Milan	fair 22	Strasbourg	shower 16
Barcelona		C.hagen	fair 15	Dublin	fair 18	Istanbul	fair 19	Montreal	fair 17	Sydney	fair 23
		Cairo	sun 32	Dubrovnik	fair 19	Jakarta	fair 31	Moscow	rain 11	Tangier	sun 26
		Cape Town	fair 17	Edinburgh	fair 18	Jersey	sun 16	Munich	cloudy 13	Tel Aviv	sun 29
						Karachi	sun 33	Nairobi	fair 30	Tokyo	sun 25
						Kuwait	sun 46	Naples	fair 23	Toronto	fair 15
						L. Angeles	sun 24	Nassau	sun 32	Vancouver	cloudy 17
						Las Palmas	fair 23	New York	fair 25	Venice	fair 12
						Lima	cloudy 18	Nice	fair 25	Vienna	fair 13
						Lisbon	cloudy 23	Nicosia	sun 34	Warsaw	fair 13
						London	fair 21	Oslo	fair 13	Washington	fair 26
						Lux.bourg	cloudy 16	Paris	fair 15	Wellington	fair 13
						Lyon	fair 16	Perth	shower 21	Winnipeg	fair 19
						Madeira	sun 26	Prague	cloudy 12	Zurich	cloudy 15

THE LEX COLUMN

Lifting the veil

Tha Olivatti affair has raised questions about the accuracy of the Italian high-tech group's reported results. But, even if the figures prove entirely accurate, they are far from ideal. The main problem is that Olivetti does not giva a proper divisional breakdown of profitability. True, the group has for the first time stated its divisional operating profits. Unfortunately, the figures are not much use because it has not revealed the assets of each division. So there is nothing to stop assets being shifted around the group to flatter the profitability of some divisions at the expense of others. The inadequacies of Olivetti's accounts are far from unique in Europe. Many companies, including most Italian onas, produce no divisional breakdown at all. Others – Roche is a typical example – only give sales by division; so one knows precious little about the profitability of different businesses. French companies do tend to give profits by division, but often these are net of interest and tax: unless one knows how much debt each division is carrying, that is pretty useless too.

Ideally, companies should publish operating profits, depreciation, capital expenditure and assets by division. Investors can then calculate returns on capital for each business and maka informed judgments about whether managers are right to invest in a particular area or should make cuts. Such information would, of course, help shareholders hold managers to account for their strategic decisions – which may be one reason most companies do not divulge it.

Valuing R&D

How do companies value research and development? These days, most submit projects to some sort of financial appraisal based on net present value (NPV) calculations. This compares the expected return of an investment with its cost, whila making allowance for the time value of money. Its advantage is that it is based on relatively simple mathematica and is therefore quick and easy to use.

However, NPV does not distinguish between two projects with the same average return but a different distribution of outcomes. Nor is it as good at valuing an oil well or a naw drug – where returns are uncertain and long-term but little money is needed up front – as a bridge or a new factory, where the risks are generally lower but the capital is committed at the start.

This matters in practice. Take, for example, two projects both costing £100m, of which £10m is needed up front and the rest later. Assume project A will produce a return of either £110m or £120m and project B, either nothing or £180m. Project A's NPV is £15m, while project B's is minus £10m. Applying NPV methods alone, one would concluda the first project was better and the second should be discarded.

But the fact that only minimal capital is sunk at the start of the project is crucial. If, as in many R&D programmes, the first £10m produces no results, the project can be dropped; but if the results are good the further investment may be almost risk-free. So the real choice in project B may be between a loss of £10m and e profit of £80m – clearly an attractive investment.

Starting an R&D programme is in effect like buying an option on a return that is uncertain now but which may becoma clearar in futura. The initial investment equates to the price of the option; and spending another lump of capital is like exercising the option – something a company needs to do only if it is confident it will be in the money.

Not surprisingly, an approach which uses this type of thinking is based on the Black-Scholes model used to valua financial options. This method, called option modelling, allows companies to incorporate a range of risk factors into a single model. That makes it more useful than an NPV sum, where the only knob you can twiddle is the discount rate. And whereas NPV calculations implicitly assume that e project once bagun cannot ba stopped, option modelling gives companies a framework they can use to judge whether their underlying assumptions have changed.

According to PA Consulting, some big oil and pharmaceuticals companies are already using option modelling. It can also help investors value biotechnology stocks, whose future profits typically depend on the outcoma of a small clutch of R&D programmes.

More generally, if companies learn to assess risk with greater precision, they should be able to take on more high-risk, high-return projects and manage them better. That should boost their productivity, innovation and ultimately their value.

Metals prices

In the mythology of the metals business, 1996 will forever be associated with Mr Yasuo Hamanaka, the infamous Sumitomo trader whose manipulation of the global copper market led to his firm suffaring $1.8bn losses. But the latest bout of nerves over the outlook for base metal prices reflects concerns about growth prospects for the Group of Seven leading industrial countries in 1997.

It has already been e disappointing year; high axpectations have been dashed, with average copper and aluminium prices 20 per cent and 15 per cent respectively below 1995 levels. Some observers remain optimistic about naxt year. Last week RTZ, the world's largest mining group, predicted a "rising trend over the next 18 months at least". But the grounds for optimism are far from assured. September is normally the month when European customers return from holiday and place forward orders. This year the phones have stayed ominously silent. The economic outlook, meanwhile, is hardly encouraging. Growth in Europe's economy, staggering under the deflationary Maastricht burden, will be lucky to exceed 2 per cent next year. The US economy is expected to slow, and Japan remains fragile. Inflation is also very subdued, and looks likely to remain so.

This is all a far cry from the supportive backdrop to the 1994 bull rally when commodities played their traditional role of inflation hedge as investors fled the fixed income market meltdown. Declining stock levels indicate that the market should tighten over the next year, landing soma support to prices. But without tha prospect of a robust global upswing, tha champagne will have to be kept on ice.